

Statement of Accounts

For the year ending 31st March 2011

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Explanatory Foreword

1. Introduction

The purpose of this foreword is to provide a guide to the most significant matters reported in the Council's final accounts for 2010/11, which comprise of the following statements, and the purpose of each is briefly explained below.

- **The Statement of Accounting Policies** - explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.
- **The Movement on Reserves (MRS)** – this shows the movement in the year on the different reserves held by the authority and is used to adjust the net surplus or deficit on the CIES to the amount chargeable under statute to the Council's General Fund.
- **The Comprehensive Income and Expenditure Account (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed.
- **The Balance Sheet** - summarises the Authority's financial position at the year-end.
- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Core Financial Statements** - provide additional information which supports and explains the figures in the Core Financial Statements.
- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to non-domestic rates and the council tax.
- **The Housing Revenue Account** - reflects a statutory obligation to maintain a separate income and expenditure account for council housing.
- **Pensions Fund Accounts** - show the contributions to and the benefits paid from the Pension Fund and identifies the investments which make up the assets of the fund.

2. Comprehensive Income and Expenditure Account

The Council's overall net expenditure on services for 2010/11 was £112.7m this was within the budget. However, there were a number of variances.

In addition to the expenditure against budget there are other items within the income and expenditure account. The Council's income and expenditure account shows a surplus of £159m compared to a deficit (restated) of £533m in 2009/10. This amounts to a change of £692m. This change is principally attributable to the improvement and change in the pension fund in 2010/11 (£140m) and to the fact that the 2009/10 accounts included a deficit on the Housing Revenue Account of £423m (due to the transfer of the Housing Revenue Account assets to Merton Priory Homes at nil value) and an exceptional impairment item of £55m due to the write down of a proportion of the authority's assets.

The Council's reserves are classified as Usable and Unusable. Usable Reserves can be applied to the provision of services by financing revenue and capital expenditure. Unusable reserves are not available to provide services but hold either unrealised gains or losses (e.g. Revaluation Reserve) or are adjustment accounts. Adjustment accounts absorb those differences, which arise between the requirements of accounting practice (entries made in the CIES) and statutory requirements (adjusting entries made in the MRS between the CIES and Unusable Reserves). The 2010/11 MRS shows that of the surplus on the CIES of £159m, £149.3m was allocated to unusable reserves, leaving £9.7m to be added to usable reserves.

The introduction of IFRS lead to a one-off increase in Usable reserves of £15.363m due to the reclassification as reserves of capital and revenue grants' balances which had been classified previously as liabilities. This one off increase forms part of the restated 2009/10 fund balances and reserves, During 2010/11 the Council's Usable reserves increased by £9.8m and this was composed of an increase of nearly £17m in pre-IFRS (non – grant) reserves and a reduction of £7.2m in grants' reserves. General Fund balances including ABG now stand at £10.5m (£10.6m at the end of 2009/10). The Schools' General Fund balance has increased by £1.8m to nearly £8.0m. The Housing Revenue Account balance fell by £0.6m to £4.05m. Earmarked revenue reserves increased from £19.7m to £30.2m.

Table 1 Fund Balances and Reserves

	2009/10 £000	2010/11 £000
Fund Balances and Revenue Reserves	41,163	52,735
Capital Receipts Reserve	5,444	10,799
Usable Resources under the SORP	46,607	63,534
Revenue Grants Reserve	3,125	3,608
Capital Grants Reserve	12,238	4,581
Change to usable resources under the IFRS Code	15,363	8,189
Usable Reserves	61,970	71,723

It is expected that the Council's funding from Central Government for the foreseeable future will be affected by public sector financial restraint and in addition, the Council is facing continuing inflationary cost pressures and demographic changes, which mainly impact on Adult Social Care and Children's Services. However, the Council's continuing strategy of maintaining a prudent level of reserves should ensure the

continuing financial stability of the organisation and the maintenance of services. The Council has embarked on the Merton Transformation Programme, which is intended to achieve major long-term savings.

There were no material or unusual charges or credits in the accounts during the year.

3. Capital

Capital expenditure amounted to £46.5m in 2010/11 (£56m in 2009/10). The programme was financed mainly through internal borrowing of £20.4m, capital grants of £23.7m, capital receipts of £0.03m and £2.453m of revenue contributions.

There were no significant assets acquired during the year. Capital receipts in year totalled £5.38m. Total external borrowing amounts to £131.1m, the lowest level for several years.

Housing Revenue Account and Housing Stock Transfer

Following a ballot of tenants the Council transferred the housing stock to Merton Priory Homes, a local not for profit housing association, on 22nd March 2010. By transferring the stock, the Council has transferred its future liabilities to bring the stock up to the Decent Homes Standard to the new landlord. The Council will also receive a 75% share of future right to buy receipts and receipts of £39m over the life of the VAT shelter. The Housing Revenue Account will be closed once the audit of the accounts is complete and the £4.054m HRA balance will be transferred to the General Fund.

4. Pensions

The impact on the council tax of pensions is dependent on the actuarial valuation of the pension fund carried out every three years. During the inter-valuation period the funding level has fallen from 91% as at March 2007 to 84% at the last valuation date, a deficit of £67m. The next triennial valuation will be in 2013. The focus of the triennial valuation is the long-term financial health of the Pension Fund and to set a contribution rate to maintain this.

For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet and in doing this, the methodology used is affected by current assumptions and short-term economic market conditions.

The Pension Fund deficit, on an IAS19 basis fell from £242m to £103m, a reduction of £139m. The Authority's actuary estimated that as at 31st March 2010, future liabilities amount to £454m (£558m as at 31st March 2010) with assets of £351m (£316m as at 31st March 2010). The reduction in the deficit of £139m has been caused by a fall in the value of liabilities (£104m) and an increase in the value of assets (£35m). The Pension Fund deficit does not imply any difficulty in financing pension liabilities in the foreseeable future. This primarily arises from a change to the use of CPI instead of RPI in calculating future liabilities.

5. Significant changes in accounting policies

The Council's accounts are compliant with the 2011 Code of Practice on Local Authority Accounting, which is based upon International Financial Reporting Standards (IFRS). The Council's 2009/10 accounts were based upon the 2010 Code of Practice which was compliant with UK Generally Accepted Accounting Practice (UK GAAP). These accounts have been restated in accordance with the IFRS-based Code.

The main emphasis of IFRS is the focus on the substance of transactions rather than their legal or contractual form. The main changes are-

- The main or core financial statements have changed and there are additional requirements regarding segmental reporting.
- Grants and contributions for capital purposes are recognised as income immediately rather than being deferred and released to revenue to match depreciation. This change has led to derecognition of the Government Grants Deferred Account.
- Grants and contributions for revenue or capital purposes must be recognised immediately in the Comprehensive Income and Expenditure Account as income unless any grant conditions have not been met. The Council's grants' balances were analysed rigorously in the light of these requirements and balances previously classified as liabilities were classified either as Receipts in Advance (grant conditions not met but there is reasonable assurance that they will be) or as earmarked reserves (No grant conditions or grant conditions met but grant not yet applied to finance expenditure). In essence, the creation of these earmarked reserves arises from earlier recognition of the grant income under IFRS than under the UK-GAAP based SORP. Under the SORP, grant and contribution balances were held as Creditor balances until they could be matched against the grant- related expenditure. This is the only change in accounting policy under IFRS, which has led to a change in Usable reserves.
- Property leases are classified and accounted for as separate leases of land and buildings.
- Leases where Council is lessee: Where the Council is a lessee under a finance lease, an asset is created together with a loan or liability to pay for that asset.
- Leases where the Council is the lessor: Where the Council is a lessor under a finance lease (e.g. the industrial estates) the fixed assets are replaced in the Balance Sheet by long-term debtors.
- Impairment losses are taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset
- Investment properties are measured at fair value, with gains and losses recognised in the Income and Expenditure account rather than through the revaluation reserve. The gains or losses are transferred from the MRS to the Capital Adjustment Account
- There is a new classification of non current assets held for sale. There are specific criteria for this classification

- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay. The holiday pay accrual is charged to the CIES but is then transferred to the Accumulated Absences Reserve.

These accounting changes however do not affect the level of General Fund balances. The reason for this is that although under IFRS there are additional charges or credits in the CIES compared to the entries, which would have been made under UK GAAP, these entries are adjusted for in the Movement on Reserves Statement and transferred to or from Unusable reserves. The following table summarises the effects of the accounting changes on the Council's Balance Sheet

Table 2 Conversion of 2009/10 Balance Sheet to IFRS-based Code of Practice

	2009/10 UK GAAP £000	2009/10 IFRS £000	2009/10 Change due to IFRS £000	1. Leases- LBM as Lessee £000	2. Leases Lessor £000	3. Fixed Assets Classificn &Valutn £000	4. Employee Accrual £000	5. Grants & Contribns £000
Long Term Assets	460,705	454,194	(6,511)	(1,054)	(5,010)	(447)	0	0
Current Assets	115,949	116,816	867	0	270	0	0	597
Current Liabilities	(60,608)	(58,099)	2,509	(788)	0	0	0	3,297
Long Term Liabilities	(482,726)	(433,872)	48,854	(1,453)	0	0	(4,346)	54,653
Net Assets	33,320	79,039	45,719	(3,295)	(4,740)	(447)	(4,346)	58,547
Useable Reserves	(46,607)	(61,970)	(15,363)	0	0	0	0	(15,363)
Unusable Reserves	13,286	(17,069)	(30,355)	3,295	4,740	447	4,346	(43,184)
Net worth	(33,320)	(79,039)	(45,719)	3,295	4,740	447	4,346	(58,547)

6. Economic Climate

As a consequence of the economic climate and continuing expected public sector financial restraint, the Council has again undertaken a thorough impairment review of its assets for its 2010/11 Statement of Accounts. This review has included the following:

- Fixed Assets: The Council has undertaken a further extensive valuation of its fixed asset stock. This exercise has led to a net reduction in the value of that stock.
- Investments: A review of the potential impairment of the Council's fixed term deposits has been undertaken. It is not considered that any provision is required.
- Debtors: Provisions for bad and doubtful debts (Council Tax, Housing Rents, Sundry Debtors) have been reviewed in the light of recent experience of

arrears recovery to ensure that a consistent approach is adopted to making provision for bad and doubtful debts.

The Council's Net Worth increased by £159m in 2010/11. The main reason for this increase is the reduction of £139m in the Council's Pension Fund deficit measured on an IAS19 basis. The Council also increased Usable reserves by £17.3m, which includes the maintenance of General Fund Balances at £10.5m and an increase in earmarked revenue reserves. This is in accordance with the Council's planned strategy to maintain prudent levels of revenue reserves, which were approved by Cabinet and Council in February and March 2011. This increase in net worth reflects the Council's improving financial health and will help to improve its operational capacity.

7. Future Developments

Transformation Programme

In common with many other councils, Merton is facing an increasing challenge in balancing its budget each year. In October 2008 Merton embarked on the Efficiency Project to identify the increased efficiency savings needed across the organisation to put us on a more stable financial footing. This is a major transformation programme for the Council, which will involve the co-operation of all service areas.

For phase 1 of the project, Merton appointed Deloitte to work with the Council to identify potential areas of savings. This work was completed in April 2009. The Transformation Programme is the Council's chosen method to progress the Deloitte recommendations.

Sustainability

Climate change, global warming, rising energy costs and water shortages are challenges every business, organisation and individual faces. The Council recognises these problems and understands its responsibility to help create a more sustainable environment for current and future generations. In response to these difficulties a number of strategic initiatives have been developed to reduce waste and energy consumption, to encourage recycling, to preserve existing water levels and cut the level of carbon dioxide emissions.

Local Government Resource Review

The Government have set up a review of local government that will consider how to recast the distribution of business rates and Formula Grant to deliver a more efficient income stream for councils. The focus will be to free up as many local authorities as possible from dependency on central government funding as well as develop better incentives for local authorities to promote economic growth in their areas, and to benefit financially from that growth. The first phase of the Review will deliver proposals for reform by July 2011.

Core Financial Statements

1. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts which are required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	(17,703)	(16,193)	(2,932)	(20)	(4,543)	(383)	(1,634)	(43,408)	(577,923)	(621,331)
Movement in reserves during 2009/10										
Surplus or (deficit) on the provision of services	32,492	0	400,229	0	0	0	0	432,721	0	432,721
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	109,571	109,571
Total Comprehensive Income and Expenditure	32,492	0	400,229	0	0	0	0	423,721	109,571	542,292
Adjustments between accounting basis & funding basis under regulations (Note 7)	(38,228)	0	(401,933)	0	(901)	383	(10,603)	(451,282)	451,282	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(5,736)	0	(1,704)	0	(901)	383	(10,603)	(18,561)	560,853	542,292
Transfers to/from Earmarked Reserves (Note 8)	6,679	(6,679)	(20)	20	0	0	0	0	0	0
Increase/Decrease in 2009/10	943	(6,679)	(1,724)	20	(901)	383	(10,603)	(18,561)	560,853	542,292
Balance at 31 March 2010 c/fwd	(16,760)	(22,872)	(4,656)	0	(5,444)	0	(12,237)	(61,969)	(17,070)	(79,039)

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in reserves during 2010/11										
Surplus or (deficit) on the provision of services	(57,859)	0	602	0	0	0	0	(57,257)	0	(57,257)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(101,837)	(101,837)
Total Comprehensive Income and Expenditure	(57,859)	0	602	0	0	0	0	(57,257)	(101,837)	(159,094)
Adjustments between accounting basis & funding basis under regulations (Note 7)	45,203	0	0	0	(5,355)	0	7,656	47,504	(47,504)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(12,656)	0	602	0	(5,355)	0	7,656	(9,753)	(149,341)	(159,094)
Transfers to/from Earmarked Reserves (Note 8)	10,956	(10,956)	0	0	0	0	0	0	0	0
Increase/Decrease in Year	(1,700)	(10,956)	602	0	(5,355)	0	7,656	(9,753)	(149,341)	(159,094)
Balance at 31 March 2011 c/fwd	(18,460)	(33,828)	(4,054)	0	(10,799)	0	(4,581)	(71,722)	(166,411)	(238,133)

2. Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

This statement consolidates the former Income and Expenditure Statement and the Statement of Total Recognised Gains and Losses (STRGL).

2009/10 Gross Exp £000	2009/10 Gross Income £000	2009/10 Net Exp £000		2010/11 Gross Exp £000	2010/11 Gross Income £000	2010/11 Net Exp £000
			Continuing Operations			
22,092	(17,720)	4,372	Central services to the public	21,999	(17,888)	4,111
51,045	(20,892)	30,153	Cultural, environmental, regulatory and planning services	49,192	(12,680)	36,512
176,232	(136,356)	39,876	Education and children's services	194,908	(154,157)	40,751
15,214	(10,674)	4,540	Highways and transport services	24,328	(10,817)	13,511
82,158	(76,066)	6,092	Other housing services	86,649	(79,016)	7,633
71,737	(22,693)	49,044	Adult social care	72,240	(27,020)	45,220
7,804	(387)	7,417	Corporate and democratic core	6,651	(1)	6,650
34,965	(34,211)	754	Non distributed costs	(8,430)	(33,311)	(41,741)
55,389	(256)	55,133	Exceptional Items – Impairment Adjustment	0	0	0
516,636	(319,255)	197,381	Cost of services	447,537	(334,890)	112,647
		4,446	Other operating expenditure (Note 9)			2,605
		32,278	Financing and investment income and expenditure (Note 10)			4,448
452,558	(29,447)	423,111	Surplus or deficit of discontinued operations (HRA)	870	(268)	602
		(224,497)	Taxation and non-specific grant income (Note 11)			(177,559)
		432,719	(Surplus) or Deficit on Provision of Services			(57,257)
		(5,866)	(Surplus) or deficit on revaluation of Property, Plant and Equipment.			40
		115,437	Actuarial gains/losses on pension assets/liabilities			(101,877)
		109,571	Other Comprehensive Income and Expenditure			(101,837)
		542,290	Total Comprehensive Income and Expenditure			(159,094)

3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
861,915	409,891	Property, Plant & Equipment	12	425,294
32,855	37,804	Investment Property	13	44,987
966	1,510	Intangible Assets	14	1,618
0	0	Assets Held for Sale	20	231
5,000	0	Long Term Investments	15	0
5,054	4,989	Long Term Debtors	15	4,636
905,790	454,194	Long Term Assets		476,766
90,000	69,674	Short Term Investments	15	66,570
0	0	Assets Held for Sale	20	0
155	118	Inventories	16	183
24,368	24,637	Short Term Debtors	18	15,579
14,123	22,387	Cash and Cash Equivalents	19	35,789
128,646	116,816	Current Assets		118,121
(2,291)	(1,936)	Cash and Cash Equivalents	19	0
(10,318)	(1,775)	Short Term Borrowing	15	(21,863)
(59,183)	(54,388)	Short Term Creditors	21	(38,925)
(71,792)	(58,099)	Current Liabilities		(60,788)
0	0	Long Term Creditors	15	0
(10,699)	(10,251)	Provisions	22	(9,859)
(155,595)	(131,100)	Long Term Borrowing	15	(130,977)
(41,941)	(40,630)	Other Long Term Liabilities	15	(40,515)
(123,662)	(242,400)	Pension Liability		(102,991)
(9,416)	(9,491)	Capital Grants Receipts in Advance	38	(11,624)
(341,313)	(433,872)	Long Term Liabilities		(295,966)
621,331	79,039	Net Assets		238,133
(43,408)	(61,970)	Usable Reserves	23	(71,723)
(577,923)	(17,069)	Unusable Reserves	24	(166,410)
(621,331)	(79,039)	Total Reserves		(238,133)

4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2009/10 £000		2010/11 £000
432,721	Net surplus or (deficit) on the provision of services	(57,257)
(461,799)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24,089
24,090	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24,714
(4,989)	Net cash flows from Operating Activities (Note 25)	(8,454)
(13,705)	Investing Activities (Note 26)	12,972
10,075	Financing Activities (Note 27)	(19,856)
(8,619)	Net increase or decrease in cash and cash equivalents	(15,338)
(11,832)	Cash and cash equivalents at the beginning of the reporting period	(20,451)
(20,451)	Cash and cash equivalents at the end of the reporting period	(35,789)

NOTES TO THE CORE FINANCIAL STATEMENTS (IFRS)

1. TRANSITION TO IFRS

Short-term accumulating compensated absences

Accruing for short-term accumulating absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance sheet

	Adjustments Made £000
Long Term Liabilities - Provisions	(3,693)
Unusable Reserves - Accumulated Absences Account	3,693

31 March 2010 Balance Sheet

	Adjustments Made £000
Long Term Liabilities - Provisions	(4,346)
Unusable Reserves - Accumulated Absences Account	4,346

2009/10 Comprehensive Income and Expenditure Account

Cost of Service (Net)

	Adjustments Made £000
Central Services to the Public	8
Cultural, Environmental, Regulatory and Planning Services	2
Education and Children's Services	609
Other Housing Services	17
Adult Social Care	17
Corporate and Democratic Core	0
Non Distributed Costs	0
Total	653

Leases

This has resulted in the following changes being made to the 2009/10 financial statements:

Council is the Lessee

Opening 1 April 2009 Balance Sheet

		Adjustments Made £000
Long Term Assets -	Property, Plant and Equipment (leased assets)	697
Current Liabilities -	Creditors - (finance lease liability under one year)	(922)
Long Term Liabilities -	Other Long Term Liabilities (finance lease liability greater than one year)	(1,517)
Unusable Reserves -	Capital Adjustment Account	1,742

31 March 2010 Balance Sheet

		Adjustments Made £000
Long Term Assets -	Property, Plant and Equipment (leased assets)	(1,054)
Current Liabilities -	Creditors - (finance lease liability under one year)	(788)
Long Term Liabilities -	Other Long Term Liabilities (finance lease liability greater than one year)	(1,453)
Unusable Reserves -	Capital Adjustment Account	3,296

2009/10 Comprehensive Income and Expenditure Statement (Net)

	Adjustments Made £000
Central Services to the Public	(73)
Cultural, Environmental, Regulatory and Planning Services	(131)
Education and Children's Services	(184)
Housing (GF)	0
Other Operating Expenditure and Income	0
Financing and Investment Income and Expenditure	1,941
Total	1,553

Council is the Lessor

Opening 1 April 2009 Balance Sheet

		Adjustments Made £000
Long Term Assets -	Property, Plant and Equipment (leased assets)	(4,610)
Long Term Assets -	Long Term Debtor - (Receivable more than one year)	4,409
Current Assets -	Current Debtor - (Receivable within one year)	244
Unusable Reserves -	Capital Adjustment Account	4,610
Unusable Reserves -	Deferred Capital Receipts	(4,653)

31 March 2010 Balance Sheet

	Adjustments Made £000
Long Term Assets - Property, Plant and Equipment (leased assets)	(9,245)
Long Term Assets - Long Term Debtor - (Receivable more than one year)	4,235
Current Assets - Current Debtor - (Receivable within one year)	270
Unusable Reserves - Capital Adjustment Account	9,245
Unusable Reserves - Deferred Capital Receipts	(4,505)

2009/10 Comprehensive Income and Expenditure Statement (Net)

	Adjustments Made £000
Cultural, Environmental, Regulatory and Planning Services	1,804
Financing and Investment Income and Expenditure	2,979
Total	4,783

Government Grants**Derecognition of Government Grants deferred:**

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	Adjustments Made £000
Long Term Liabilities - Government Grants Deferred Account	28,625
Unusable Reserves - Capital Adjustment Account	(28,625)

31 March 2010 Balance Sheet

	Adjustments Made £000
Long Term Liabilities - Government Grants Deferred Account	43,184
Unusable Reserves - Capital Adjustment Account	(43,184)

Reclassification of Grants and Contributions

Opening 1 April 2009 Balance Sheet

		Adjustments
		Made
		£000
Current Assets	Debtors	1,178
Current Liabilities	Creditors	2,091
Long Term Liabilities -	Grants & Contributions unapplied	10,200
Long Term Liabilities -	Grants & Contributions receipts in advance	(9,416)
Usable Reserves -	Grants Reserves	(4,053)

31 March 2010 Balance Sheet

		Adjustments
		Made
		£000
Current Assets	Debtors	597
Current Liabilities	Creditors	3,297
Long Term Liabilities -	Grants & Contributions unapplied	20,960
Long Term Liabilities -	Grants & Contributions receipts in advance	(9,491)
Unusable Reserves -	Grants Reserves	(15,363)

2009/10 Comprehensive Income and Expenditure Statement (Net)

		Adjustments
		Made
		£000
Central Services to the Public		0
Cultural, Environmental, Regulatory and Planning Services		1,983
Education and Children's Services		2,613
Highways and Transport		(48)
Housing (GF)		673
Adult Social Care		61
Non Distributed Costs		45
HRA		18
Taxation and non-specific grant income		(31,214)
Total		(25,869)

Fixed Assets 2009/10 – Valuation of Community Assets

		Adjustments
		Made
		£000
Long Term Assets -	Property, Plant and Equipment	(447)
Unusable Reserves -	Capital Adjustment Account	447

31 March 2010 Balance Sheet

	Adjustments Made £000
Long Term Assets - Intangible Assets	1,510
Long Term Assets - Property, Plant and Equipment	(1,957)
Unusable Reserves - Capital Adjustment Account	447

Cash and Cash Equivalents**Opening 1 April 2009 Balance Sheet**

	Adjustments Made £000
Long Term Assets - Long Term Investments	5,000
Current Assets - Short Term Deposits	(5,000)

31 March 2010 Balance Sheet

	Adjustments Made £000
Current Assets - Short Term Deposits	(7,700)
Current Assets - Cash Equivalents	7,700

Restatement of 2009/10 CIES from SORP to IFRS Code

2009/10	2009/10 Statements £000	Accumulated Absences £000	Leases - Lessee £000	Leases - Lessor £000	Government Grants £000	Total £000
Central Services to the Public	4,437	8	(73)			4,372
Cultural, Environmental, Regulatory and Planning Services	26,495	2	(131)	1,804	1,983	30,153
Education and Children's Services	36,838	609	(184)		2,613	39,876
Highways and Transport	4,588				(48)	4,540
Other Housing Services	5,402	17			673	6,092
Adult Social Care	48,966	17			61	49,044
Corporate and Democratic Core	7,417					7,417
Non Distributed Costs	709				45	754
Exceptional Items	55,133					55,133
Net Cost of Service	189,985	653	(388)	1,804	5,327	197,381
Other Operating Income and Expenditure	4,446					4,446
Financing and Investment Income and Expenditure	27,358		1,941	2,979		32,278
HRA	423,093				18	423,111
Taxation and non-specific grant income	(193,283)				(31,214)	(224,497)
Surplus/deficit on provision of services	451,599	653	1,553	4,783	(25,869)	432,719
Former SRGL elements	(5,866)					(5,866)
Surplus/deficit on revaluation of fixed assets	115,437					115,437
Total Comprehensive Income and Expenditure	561,170	653	1,553	4,783	(25,869)	542,290

Restatement of Balance Sheets from SORP to IFRS Code

	2009/10 Statements £000	Accumulated Absences £000	Leases - Lessee £000	Leases - Lessor £000	Government Grants £000	Fixed Assets Classification £000	Cash and Cash Equivalents £000	Total £000
BALANCE SHEET 2009/10								
Long Term Assets	460,705		(1,054)	(5,010)		(447)		454,194
Current Assets	115,949			270	597			116,816
Current Liabilities	(60,608)		(788)		3,297			(58,099)
Long Term Liabilities	(482,725)	(4,346)	(1,453)		54,653			(433,871)
Net Assets	33,321	(4,346)	(3,295)	(4,740)	58,547	(447)		79,040
Usable Reserves	(46,607)							(46,607)
Unusable Reserves	13,286	4,346	3,296	4,740	(58,547)	447		(32,432)
Total Reserves	(33,321)	4,346	3,296	4,740	(58,547)	447		(79,039)
BALANCE SHEET 2008/09								
Long Term Assets	900,740		697	(201)		(447)	5,000	905,789
Current Assets	132,224			244	1,178		(5,000)	128,646
Current Liabilities	(71,325)		(922)		2,091			(70,156)
Long Term Liabilities	(367,148)	(3,693)	(1,517)		29,409			(342,949)
Net Assets	594,491	(3,693)	(1,742)	43	32,678	(447)		621,330
Usable Reserves	(39,355)				(4,053)			(43,408)
Unusable Reserves	(555,137)	3,693	1,742	(43)	(28,625)	447		(577,923)
Total Reserves	(594,492)	3,693	1,742	(43)	(32,678)	447		(621,331)

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

A new accounting standard, FRS 30 Heritage Assets, has been adopted for the 2011/12 Code. The standard allows councils to value certain Community Assets at market value and disclose as a new class of assets, namely Heritage Assets.

The Council's heritage assets, consisting principally of civic regalia and pictures, were last valued in 2007. These currently form part of community assets and are included at nominal values; their value will be reviewed in 2011/12 and included in the accounts at 31st March 2012. Their current value is estimated at less than one million pounds. The Council does not have sufficient information at this time to provide further details.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Although it is expected that future levels of funding will be reduced this is not expected to influence the Council's ability as a going concern.
- The Council's relationships with other bodies do not fall within the scope of group accounts.
- Apart from those already declared there are no further service concessions.
- The potential outcomes from legal claims are not expected to be material to the Council's accounts.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the London Borough of Merton about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the London Borough of Merton's Balance Sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item:

Property, Plant and Equipment

Uncertainty:

Assets are depreciated over useful lives that are dependant on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.

Effect if actual result differs from assumptions:

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

Item:

Provisions

Uncertainty:

The Council has made provisions of £5.4m for insurance claims. The fund is used to pay claims for which the council is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the council.

Effect if actual result differs from assumptions:

If the actuals differ from the assumptions then it is possible that the Insurance fund would be insufficient to cover the liabilities of the Council and further demands would be made on the General Fund.

Item:

Pension Liability

Uncertainty:

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:

The assumptions interact in complex ways and changes in assumptions cannot be easily measured. During 2010/11, the Council's actuaries advised that the net pension liability had reduced by £139m as a result of changes in assumptions about discount rates.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

Other than that disclosed on the face of the Comprehensive Income and Expenditure Statement, there were no material items of Income and Expenses.

6. EVENTS AFTER BALANCE SHEET DATE

Events after the balance sheet date have been considered up to the 30th June 2011, there were no adjusting post Balance Sheet events.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The following tables detail the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non current assets	(14,583)					14,583
Revaluation losses on Property Plant and Equipment	(1,572)					1,572
Movements in the market value of Investment Properties	8,008					(8,008)
Amortisation of intangible assets	(345)					345
Capital grants and contributions applied						
Movements in the Donated Assets Account						
Revenue expenditure funded from capital under statute	(7,756)					7,756
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,068)					7,068
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Statutory provision for the financing of capital investment	7,834					(7,834)
Capital expenditure charged against the General Fund and HRA balances	2,453					(2,453)
Revaluation gains charged direct to Revaluation Reserve						
Adjustments primarily involving the Capital Grant Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	16,037				(16,037)	
Application of grants to capital financing transferred to the Capital Adjustment Account					23,695	(23,695)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,706		(5,706)			
Use of the Capital Receipts Reserve to finance new capital expenditure			29			(29)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(262)		262			

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(67)		67			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(7)			7
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(285)					285
Adjustment involving the Major Repairs Reserve						
Reversal of Major repairs Allowance credited to the HRA						
Use of the Major Repairs Reserve to finance new capital expenditure						
Adjustment involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements						
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	23,138					(23,138)
Employer's pensions contributions and direct payments to pensioners payable in the year	14,394					(14,394)
Adjustments involving the Collection Fund Adjustments Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(429)					429
Adjustment involving the Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements						
Adjustment involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements						
Total Adjustments	45,203	0	(5,355)	0	7,658	(47,506)

2009/10 Comparative Figures

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non current assets	(61,585)	(421,982)				483,567
Revaluation losses on Property Plant and Equipment	(1,721)					1,721
Movements in the market value of Investment Properties	4,634					(4,634)
Amortisation of intangible assets						
Capital grants and contributions applied		24,090				(24,090)
Movements in the Donated Assets Account						
Revenue expenditure funded from capital under statute	(6,725)	(8)				6,733
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,733)	(1,602)				4,335
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Statutory provision for the financing of capital investment	8,193					(8,193)
Capital expenditure charged against the General Fund and HRA balances	1,772					(1,772)
Adjustments primarily involving the Capital Grant Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	31,213				(31,213)	0
Application of grants to capital financing transferred to the Capital Adjustment Account					20,610	(20,610)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,618		(1,618)			0
Use of the Capital Receipts Reserve to finance new capital expenditure						
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(73)		73			0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(656)		656			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(12)			12
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(148)					148

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustment involving the Major Repairs Reserve						
Reversal of Major repairs Allowance credited to the HRA		(7,006)				7,006
Use of the Major Repairs Reserve to finance new capital expenditure		4,420		383		(4,803)
Adjustment involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements						
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(18,513)	(801)				19,314
Employer's pensions contributions and direct payments to pensioners payable in the year	15,058	956				(16,014)
Adjustments involving the Collection Fund Adjustments Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,360					(1,360)
Adjustment involving the Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements						
Adjustment involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(653)					653
Total Adjustments	(38,227)	(401,933)	(901)	383	(10,603)	451,281

8. TRANSFERS TO/ FROM EARMARKED RESERVES

	Balance at 1 April 2009 £000	Transfers Out £000	Transfers in £000	Balance at 31 March 2010 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2011 £000
General Fund:							
Balances held by schools under a scheme of delegation	5,663	0	448	6,111	0	1,837	7,948
Earmarked reserves	16,212	(2,054)	8,716	22,874	(1,979)	12,934	33,828
Total	21,875	(2,054)	9,164	28,985	(1,979)	14,771	41,776

Reserve	31st March 2009 £000	Net Transfer to/(from) Reserve £000	31st March 2010 £000	Net Transfer to/(from) Reserve £000	31st March 2011 £000
Outstanding Council Programme Board Reserve	3,253	206	3,459	1,782	5,241
Schools PFI Fund	3,520	618	4,138	541	4,679
Budget Funding Gap	0	0	0	4,282	4,282
Revenue Reserves for Capital	0	2,453	2,453	1,822	4,275
Insurance Reserve	1,510	1,275	2,785	0	2,785
DSG Reserve	309	308	616	1,880	2,496
Performance Reward Grant	0	0	0	1,192	1,192
Community Care Reserve	35	541	576	420	996
VAT Reserve	0	1,752	1,752	(1,000)	752
LABGI Reserve	1,969	(1,106)	863	(286)	577
Schools Reserve	323	250	573	(17)	556
Local Land Charges Reserve	0	102	102	307	409
Merton Business Investment Fund	347	(8)	339	0	339
Schools Single Status	304	0	304	0	304
Waste & Recycling Reserve	225	0	225	0	225
ICES Reserve	0	0	0	200	200
E&R Partnerships	207	(12)	195	0	195
Facilities Reserve	200	(30)	171	1	171
Sixth Form Reserve	281	250	531	(402)	129
Wimbledon Tennis Courts Renewal Fund	50	25	75	25	100
Section 117	841	(741)	100	0	100
Chief Executive's Reserves	46	92	138	(92)	46
Audit and Support Reserve	0	136	136	(136)	0
Other	373	(158)	215	(45)	170
Grants	2,419	707	3,126	483	3,609
Total	16,212	6,662	22,873	10,955	33,828

Notes

All reserves >£100k shown individually. Remaining reserves compiled and shown as other. 2009/10 figure shown individually when there was a 2008/09 figure >£100k

9. OTHER OPERATING EXPENDITURE

2009/10 £000		2010/11 £000
0	Parish council precepts	0
927	Levies	915
656	Payments to the Government Housing Capital Receipts Pool	67
2,862	Losses on the disposal of non-current assets	1,623
4,446	Total	2,605

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2009/10 £000		2010/11 £000
22,862	Interest payable and similar charges	11,533
8,285	Pensions interest cost and expected return on pensions assets	4,551
(2,860)	Interest receivable and similar income	(1,350)
4,719	Income and expenditure in relation to investment properties and changes in their fair value	(10,074)
(728)	Other investment income – Trading Accounts not related to services	(212)
32,278	Total	4,448

11. TAXATION AND NON-SPECIFIC GRANT INCOMES

2009/10 £000		2010/11 £000
(84,507)	Council tax income	(83,817)
(54,233)	Non domestic rates	(59,145)
(25,230)	Non-ringfenced government grants	(24,946)
(60,527)	Capital grants and contributions	(9,651)
(224,497)	Total	(177,559)

Note: The Council Tax income figure excludes Wimbledon and Putney Commons Conservators levy.

12. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other Land and Buildings 20 - 50 years
- Vehicles, Plant, Furniture & Equipment 5 - 10 years
- Infrastructure 25 years

Capital Commitments

At 31 March 2011, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £15.0m. Similar commitments at 31 March 2010 were £21.3m. The major commitments are:

SEN Centre of Excellence	£1.7m
HolyTrinity School Expansion	£1.0m
Hollymount School Expansion	£3.2m
Joseph Hood School Expansion	£5.3m
Benedict School Expansion	£2.0m
Raynes Park Sports Pavilion	£1.4m

Effects of Changes in Estimates

In 2010/11, the Authority made a material change to its accounting estimates for Property, Plant and Equipment. In previous financial years the Authority recognised the two primary components of land and buildings. In 2010/11 the Authority recognised three secondary components of the buildings primary component; structure, services and external work. These three components have been separately valued, with different useful lives and depreciated appropriately.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2010	0	308,864	16,090	117,815	0	7,600	4,519	454,888	64,220
Additions	0	12,050	4,644	7,656	762	231	12,968	38,311	6,598
Donations	0	0	0	0	0	0	0	0	0
Revaluation increase/(decreases) recognised in the Revaluation Reserve	0	(157)	2	0	0	0	0	(155)	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(810)	0	0	(762)	0	0	(1,572)	0
Derecognition - Disposals	0	(1,018)	(3,355)	0	0	(2,800)	0	(7,173)	0
Derecognition - Other	0	(1,649)	0	(7,656)	0	0	0	(9,305)	0
Assets reclassified (to)/from held for Sale	0	0	0	0	0	(231)	0	(231)	0
Other movements in Cost or Valuation	0	0	0	0	0	0	0	(7)	0
At 31 March 2011	0	317,280	17,381	117,815	0	4,800	17,487	474,756	70,818
Accumulated Depreciation and Impairment									
At 1 April 2010	0	4,127	5,863	35,008	0	0	0	44,998	993
Depreciation Charge	0	7,206	2,747	4,630	0	0	0	14,583	2,038
Depreciation written out to the Revaluation Reserve	0	(114)	0	0	0	0		(114)	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	0	(3,109)	0	0	0		(3,109)	0
Derecognition - Other	0	(167)	0	(6,729)	0	0	0	(6,896)	0
Other movements in Deprecation and Impairment	0	0	0	0	0	0	0	0	0
At 31 March 2011	0	11,052	5,501	32,909	0	0	0	49,462	3,031
Net Book Value									
At 31 March 2011	0	306,228	11,880	84,906	0	4,800	17,487	425,294	67,787
At 31 March 2010	0	304,737	10,228	82,807	0	7,600	4,519	409,891	63,226

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2009	423,221	352,982	11,968	105,259	0	7,210	0	900,640	72,014
Additions	7,514	16,189	3,071	12,556	2,770	0	4,519	46,619	4,711
Donations	0	0	0	0	0	0	0	0	0
Revaluation increase/(decreases) recognised in the Revaluation Reserve	(428,498)	(9,416)	0	0	0	1,780	0	(436,134)	(4,212)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(51,204)	0	0	(2,770)	2,057	0	(51,917)	(8,293)
Derecognition - Disposals	(2,237)	(1,382)	(116)	0	0	0	0	(3,735)	0
Adjusted Finance Leases	0	(2,070)	1,167	0	0	0	0	(903)	0
Assets reclassified (to)/from held for Sale	0	0	0	0	0	0	0	0	0
Other movements in Cost or Valuation	0	0	0	0	0	0	0	0	0
Reclassification	0	3,758	0	0	0	(3,447)	0	311	0
At 31 March 2010	0	308,857	16,090	117,815	0	7,600	4,519	454,881	64,220
Accumulated Depreciation and Impairment									
At 1 April 2009	0	4,607	3,238	30,880				38,725	2,178
Depreciation Charge	7,006	3,656	2,747	4,128				17,537	993
Depreciation written out to the Revaluation Reserve		(4,152)						(4,152)	(2,178)
Depreciation written out to the Surplus/Deficit on the Provision of Services								0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve								0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services								0	0
Derecognition - Disposals	(7,006)	(23)	(123)					(7,152)	0
Recognised Finance Leases		39						39	0
Other movements in Deprecation and Impairment								(10)	0
At 31 March 2010	0	4,127	5,862	35,008	0	0	0	44,987	993

Revaluations

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at historical cost	0	0	0	0	0
valued at fair value as at:					
31 March 2008	0	0	1,629	0	1,629
31 March 2009	0	24,185	1,991	0	26,176
31 March 2010	0	280,515	2,460	4,800	287,775
31 March 2011	0	1,521	5,799	0	7,320
					0
Total Cost or Valuation	0	306,221	11,879	4,800	322,900

13. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

The following table summarises the movement in the fair value of investment properties over the year:

	2009/2010 £000	2010/2011 £000
Rental income from investment property	(4,294)	(3,743)
Direct operating expenses arising from investment property	1,648	1,627
Net gain/ (loss)	(2,646)	(2,116)

**The movement in the fair value of investment properties
Over the year:**

	2009/2010 £000	2010/2011 £000
Balance at start of the year	32,855	37,804
Additions:		
Purchases		0
Construction		0
Subsequent expenditure	607	7
Disposals	(505)	(839)
Net gains/ losses from fair value adjustments	9,722	8,008
Transfers:		
To/ from inventories		0
To/ from Property, Plant and Equipment		0
Other changes	(4,875)	7
Balance at end of the year	37,804	44,987

14. INTANGIBLE ASSETS

The London Borough of Merton accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the London Borough of Merton. The useful lives assigned to the major software suites used by the London Borough of Merton is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.99m charged to revenue in 2010/2011 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2009/10		2010/11	
	Other Assets £000	Total £000	Other Assets £000	Total £000
Balance at start of year:				
Gross carrying amounts	1,626	1,626	2,505	2,505
Accumulated amortisation	(661)	(661)	(995)	(995)
Net carrying amount at start of year	965	965	1,510	1,510
Additions:	0	0	0	0
Internal development	0	0	0	0
Purchases	958	958	453	453
Acquired through business combinations	0	0	0	0
Assets reclassified as held for sale	0	0	0	0
Other disposals	0	0	0	0
Revaluations increases or decreases	0	0	0	0
Impairment losses recognised or reversed directly in Revaluation Reserve	0	0	0	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0	0	0	0
Amortisation for the period	(413)	(413)	(345)	(345)
Other changes		0	0	0
Net carrying amount at end of year	1,510	1,510	1,618	1,618
Comprising:				
Gross carrying amounts	2,505	2,505	2,172	2,172
Accumulated amortisation	(995)	(995)	(554)	(554)
	1,510	1,510	1,618	1,618

15. FINANCIAL INSTRUMENTS

The Authority is required to disclose the risks inherent in its usage of financial instruments in its treasury activities, their significance, and how they are managed. The tables below show the location of financial instruments within the Council's accounts. The account balances which are not treated as financial instruments are those arising under statute (e.g. Government grant debtors) and Council Tax balances.

Categories of Financial Instruments

	Long-term			Current		
	31 March 2011	31 March 2010	31 March 2009	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000	£000	£000	£000
Investments						
Loans and receivables	0	0	5,000	66,570	69,674	90,000
Available-for-sale financial assets	0	0	0	0	0	0
Unquoted equity investment at cost	0	0	0	0	0	0
Financial assets at fair value through profit and loss	0	0	0	0	0	0
Total investments	0	0	5,000	66,570	69,674	90,000
Debtors						
Loans and receivables	4,636	4,989	5,054	10,747	15,674	17,984
Financial assets carried at contract amounts	0	0	0	0	0	0
Total debtors	4,636	4,989	5,054	10,747	15,674	17,984
Borrowings						
Financial liabilities at amortised cost	130,977	131,100	155,595	21,863	1,775	10,318
Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
Total borrowings	130,977	131,100	155,595	21,863	1,775	10,318
Other Long Term Liabilities						
PFI liabilities & Other Finance Liabilities	40,515	40,630	41,941			
Total other long term liabilities	40,515	40,630	41,941	0	0	0
Creditors						
Financial liabilities at amortised cost	0	0	0	30,209	40,188	41,805
Financial liabilities carried at contract amount	0	0	0	0	0	0
Total creditors	0	0	0	30,209	40,188	41,805

The Council's policy is to undertake its Treasury activities within the scope of the CIPFA Code of Practice for Treasury Management. The Annual Treasury Strategy, reported to cabinet and Council is developed with recognition of treasury risks, and includes Prudential Indicator limits for the overall amount of borrowing and the term (maturity) and fixed/variable interest rate characteristics of borrowing and investment. The Treasury Strategy report also proposes for the Council's approval, criteria for the minimum creditworthiness required for investment counter parties.

Income, Expense, Gains and Losses

	2009/10					2010/11				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at fair value through profit and loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at fair value through profit and loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	22,862	0	0	0	22,862	11,533	0	0	0	11,533
Losses on Derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in Fair Value	0	0	0	0	0	0	0	0	0	0
Impairment Losses	0	0	0	0	0	0	0	0	0	0
Fee Expenses	0	0	0	0	0	0	0	0	0	0
Total Expenses in Surplus or Deficit on the Provision of Services	22,862	0	0	0	22,862	11,533	0	0	0	11,533
Interest Income	0	(2,860)	0	0	(2,860)	0	(1,350)	0	0	(1,350)
Interest income accrued on impaired financial assets	0	0	0	0	0	0	0	0	0	0
Increase in fair values	0	0	0	0	0	0	0	0	0	0
Gains on derecognition	0	0	0	0	0	0	0	0	0	0
Fee Income	0	0	0	0	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	0	(2,860)	0	0	(2,860)	0	(1,350)	0	0	0
Gains on revaluation	0	0	0	0	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0
Net gain/loss for the year	22,862	(2,860)	0	0	20,002	11,533	(1,350)	0	0	10,183

Investments

Investments at 31st March 2011 are all short-term cash deposits, in compliance with the Council's Treasury Management Policy, which only allows investment in cash or gilts. In addition to the amounts invested (£86m), the Pension Fund owes £1.8m to the General Fund. This compares with 2009/10 when £76.7m was invested, including £3.136m invested by the Pension Fund.

Investment Profile		31 st March 2010 £000	31 st March 2011 £000
Short term		76,700	86,000
Accrued Investment Income		674	569
Total		77,374	86,569
Investments – Movement in year			£000
Investments at 1 st April 2010			77,374
Change in investment managed internally			9,300
Change in accrued investment income			(105)
Investments at 31 st March 2011			86,569
Short term Investments (book value)			66,469
Cash Equivalents (book value)			20,100
	Book Value	Market Value	Unrealised Profits/(Losses)
	£000	£000	£000
Managed internally	86,000	86,000	0
Managed externally	0	0	0
Total	86,000	86,000	0

Fair Value of Assets and Liabilities

In line with FRS25 and IFRS7 on Financial Instruments, the Council has calculated the fair value of its borrowing portfolio in the following table. The calculation of fair value involves estimating the premium payable on each loan if it were redeemed at year-end, and adding this to the outstanding principal. All loans are at fixed rates and do not include derivatives, to which the Authority is directly exposed. The Council is not able to package its debt as a marketable security and no adjustment is required to the book value of these loans on the balance sheet.

The methods and assumptions used in the valuation technique were:

- For other market debt, the discount rate used is the published PWLB rate for an instrument with the same maturity period.

Borrowing at Source – Fair Value	31 st March 2010 £000	31 st March 2011 £000
Public Works Loan Board	77,475	79,152
Money Market	80,526	81,987
Temporary Loan	0	20,100
Stock Loan	3,041	2,878
	161,042	184,117

Borrowing – Maturity Profile	31st March 2010 £000	31st March 2011 £000
Less than 1 year	139	20,224
Between 1 and 2 years	124	0
Between 2 and 5 years	0	0
Between 5 and 10 years	10,966	19,966
More than 10 years	120,010	111,010
Total over 1 yr	131,100	130,976
Total Borrowings	131,239	151,200
Accrued Interest	1,636	1,639
	132,875	152,839

The Balance Sheet figures are based upon the maturity profile of borrowings.

16. INVENTORIES

The stock balance of £0.183m in 2010/11 (£0.118m in 2009/10) represents the complete stock relating to the Partnership Agreement with the Sutton and Merton Primary Care Trust (PCT) and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2009/10 £000	2010/11 £000
Balance outstanding at the start of the year	155	118
Purchases	569	363
Recognised as an expense in the year	(606)	(298)
Balance outstanding at year-end	118	183

17. CONSTRUCTION CONTRACTS

The Council does not undertake any third party construction projects.

18. DEBTORS

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
4,605	7,304	Central government bodies	3,447
0	0	Other local authorities	0
0	0	NHS bodies	0
0	0	Public corporations and trading funds	0
19,763	17,333	Other entities and individuals	12,132
24,368	24,637	Total	15,579

19. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
(2,363)	(2,116)	Main bank account	(1,181)
72	180	Cash in transit (held by agents)	625
14,060	14,621	Cash advanced to schools	16,280
0	7,700	Cash equivalents	20,000
63	66	Cash advanced to establishments (Petty cash imprests)	65
11,832	20,451	Total Cash and Cash Equivalents	35,789

20. ASSETS HELD FOR SALE

	Non Current	
	2009/10 £000	2010/11 £000
Balance outstanding at start of year	0	0
Assets newly classified as held for sale: Property, plant and equipment-Eastfields Road property to be sold to developer	0	231
Balance outstanding at year end	0	231

There are no Current Assets held for sale in 2010/11.

21. CREDITORS

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
(10,270)	(11,278)	Central government bodies	(4,222)
(1,369)	(1,840)	Other local authorities	(641)
(1,206)	(552)	NHS bodies	(650)
0	0	Public corporations and trading funds	0
(46,338)	(40,718)	Other entities and individuals	(33,412)
(59,183)	(54,388)	Total	(38,925)

22. PROVISIONS

	Outstanding Legal Cases £000	Injury and damage compensation claims £000	Other Provisions £000	Total £000
Balance at 1 April 2010	0	5,430	4,821	10,251
Additional provisions made in 2010/11		1,816		1,816
Amounts used in 2010/2011	0	(1,816)	(392)	(2,208)
Unused amounts reserved in 2010/11	0	0	0	0
Unwinding of discounting in 2010/11	0	0	0	0
Balance at 31 March 2011	0	5,430	4,429	9,859

Outstanding Legal Cases

The council is not involved in any legal cases other than those already disclosed as contingent liabilities.

Injury and Damage Compensation Claims Insurance Fund

The Council in line with most other councils, self insures for claims up to a certain value. As part of this it maintains an Insurance Fund to cover claims. The Council tops up the fund at year end to maintain the fund at a level recommended by the Council's actuaries.

Other Provisions

Social Services – CM2000

CM2000 is an electronic homecare monitoring system used by external domiciliary care providers to record the actual amount of homecare provided by carers when they visit service users. It was introduced in May 2007 and it interfaces with our financial system via CareFirst and will be used to pay for the actual home care provided and bill clients more effectively and accurately. This provision represents an estimated liability to cover a provider claim that is disputed by the Authority.

Stouthall Dilapidations

The Council had a contractual obligation to repair Stouthall, a property based in Wales which was leased by the Council and used by schools. As part of the surrender of the lease the Council was required to repair the property. During 2010/11 the council undertook these repairs and consequently applied £0.39m.

Employee Accrual Provision

The council is required to account for the cost of vested untaken leave in the year by staff. The Council set aside £4.35m in total for this.

23. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 7.

24. UNUSABLE RESERVES

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
(3,892)	(8,695)	Revaluation Reserve	(23,128)
0	0	Available for Sale Financial Instruments Reserve	0
(693,350)	(245,884)	Capital Adjustment Account	(242,104)
0	0	Financial Instruments Adjustment Account	0
123,662	242,400	Pensions Reserve	102,991
(4,695)	(4,535)	Deferred Capital Receipts Reserve	(4,243)
(3,341)	(4,701)	Collection Fund Adjustment Account	(4,272)
0	0	Unequal Pay Back Pay Account	0
3,693	4,346	Accumulated Absences Account	4,346
(577,923)	(17,069)	Total Unusable Reserves	(166,410)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/2010 £000		2010/2011 £000
(3,892)	Balance at 1 April	(8,695)
(13,252)	Upward revaluation of assets	(77)
7,874	Downward revaluation of assets and impairment losses not charged to the surplus/Deficit on the Provision of Services	118
(5,378)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	41
38	Disposal	
78	Difference between fair value depreciation and historical cost depreciation	(14,580)
573	Accumulated gains on assets sold or scrapped	106
689	Amount written off to the Capital Adjustment Account	(14,474)
(115)	Lease adjustment	
(8,695)	Balance at 31 March	(23,128)

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2009/2010 £000		2010/2011 £000
0	Balance at 1 April	0
0	Upward revaluation of investments	0
0	Downward revaluation of investments not charged to the Surplus/ Deficit on the Provision of Services	0
0		0
0	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0
0		0
0	Balance at 31 March	0

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2009/2010 £000			2010/2011 £000
(693,350)	Balance at 1 April		(245,884)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
17,121	Charges for depreciation and impairment of non-current assets	14,583	
482,760	Revaluation losses on Property, Plant and Equipment	1,572	
413	Amortisation of intangible assets	345	
7,794	Revenue expenditure funded from capital under statute	7,757	
4,450	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,312	
0	Amount of leasing liability written off on disposal	(245)	
511,825			31,324
(1,177)	Adjusted amounts written out of the Revaluation Reserve		14,474
	Net written out amount of the cost of non-current assets consumed in the year		
	Capital financing applied in the year:		
0	Use of Capital Receipts Reserve to finance new capital expenditure		(29)
(4,803)	Use of Major Repairs Reserve to finance new capital expenditure		0
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		
(21,669)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account		(23,694)
(24,090)	Government Grant to redeem debt		0
(8,193)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances		(7,834)
(1,772)	Capital expenditure charged against the General Fund and HRA balances		(2,453)
(9,722)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(8,008)
6,354	Leasing Adjustment		0
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0
(245,884)	Balance at 31 March		(242,104)

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from

gains per statutory provisions. The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2011 will be charged to the General Fund over the next 14 years.

2009/2010 £000		2010/2011 £000
0	Balance at 1 April	0
5,223	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
0	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0
(5,223)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0
0	Balance at 31 March	0

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/2010 £000		2010/2011 £000
123,662	Balance at 1 April	242,400
115,438	Actuarial gains and losses on pensions assets and liabilities	(101,877)
19,314	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive Income and Expenditure Statement	(23,138)
(16,014)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,394)
242,400	Balance at 31 March	102,991

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009/10 £000		2010/11 £000
(4,695)	Balance at 1 April	(4,535)
148	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	285
12	Transfer to the Capital Receipts Reserve upon receipt of cash	7
(4,535)	Balance at 31 March	(4,243)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/2010 £000		2010/2011 £000
(3,341)	Balance at 1 April	(4,701)
(1,360)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	429

(4,701)	Balance at 31 March	(4,272)
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Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

2009/2010 £000		2010/2011 £000
0	Balance at 1 April	0
0	Increase in provision for back pay in relation to Equal Pay Cases	0
0	Cash settlements paid in the year	0
0	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0
0	Balance at 31 March	0

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/2010 £000		2010/2011 £000
3,693	Balance at 1 April	4,346
(3,693)	Settlement or cancellation of accrual made at the end of the preceding year	0
4,346	Amounts accrued at the end of the current year	
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	
4,346	Balance at 31 March	4,346

25. CASH FLOW STATEMENT - OPERATING ACTIVITIES

2009/2010 £000		2010/2011 £000
(22,284)	Employee running costs and income	(19,657)
22,818	Interest received	13,169
(5,523)	Interest paid	(1,966)
0	Dividends received	0
(4,989)		(8,454)

26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2009/2010 £000		2010/2011 £000
47,098	Purchase of property, plant and equipment, investment property and intangible assets	40,686
0	Purchase of short-term and long-term investments	
0	Other payments for investing activities	
(1,545)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,377)
(26,000)	Proceeds from short-term and long-term investments	(3,000)
(33,258)	Other receipts from investing activities	(19,337)
(13,705)	Net cash flows from investing activities	12,972

27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2009/2010 £000		2010/2011 £000
0	Cash receipts of short- and long-term borrowing	(19,965)
(24,090)	Other receipts from financing activities	0
1,393	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	109
32,772	Repayment of short- and long-term borrowing	0
0	Other payments for financing activities	0
10,075	Net cash flows from investing activities	(19,856)

28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

2010/11	Chief Executives £000	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME								
Fees, charges and other service income	(95)	(6,093)	(11,670)	(20,250)	(1,194)	(104)	(17,399)	(56,804)
Government grants and Contributions	(79)	(92,729)	(137,992)	(1,746)	(1,907)	(1,030)	(2,276)	(237,759)
Total income	(174)	(98,821)	(149,661)	(21,996)	(3,101)	(1,134)	(19,675)	(294,563)
EXPENDITURE								
Employee expenses	2,099	19,845	30,054	13,519	3,728	1,117	23,826	94,187
Other service expenses	2,949	103,425	149,335	54,926	1,487	4,740	23,865	340,727
Support Service Recharges	1,622	9,840	6,914	6,837	1,191	578	10,497	37,479
Total expenditure	6,669	133,111	186,303	75,282	6,406	6,435	58,188	472,394
Surplus or deficit on the provision of services	6,496	34,289	36,642	53,286	3,305	5,300	38,514	177,831

2009/10 Comparative Figures	Chief Executives £000	Corporate Services £000	Children, Schools & Families £000	Adult Social Care £000	Libraries £000	Housing £000	Environment & Regeneration £000	Total £000
INCOME								
Fees, charges and other service income	(92)	(6,261)	(10,315)	(17,302)	(1,553)	(834)	(26,116)	(62,473)
Government grants and Contributions	(85)	(86,086)	(125,039)	(596)	(2,049)	(3,564)	(787)	(216,204)
Total income	(176)	(92,347)	(133,353)	(17,898)	(3,602)	(4,398)	(26,902)	(278,678)
EXPENDITURE								
Employee expenses	1,943	21,343	26,732	14,634	4,012	830	24,441	93,935
Other service expenses	3,033	96,654	139,490	52,732	1,568	7,292	24,650	325,419
Support Service Recharges	1,364	10,478	3,773	6,277	682	414	11,087	34,074
Total expenditure	6,339	128,475	169,996	73,643	6,261	8,536	60,178	453,428
Surplus or deficit on the provision of services	6,163	36,128	33,643	55,746	2,660	4,138	33,275	174,751

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement:

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/10 £000		2010/11 £000
174,751	Net Expenditure: Segmental Analysis	177,831
0	Net Expenditure of Services not included in the Segmental Analysis	0
22,630	Amounts in the I&E not in the Segmental Analysis	(65,184)
197,381		112,647
0	Amounts in the Segmental Analysis not in the I&E	0
197,381	Cost of Service in Comprehensive Income and Expenditure Account	112,647

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Net Expenditure: Segmental Analysis £000	Net Expenditure of Services not included in the Segmental Analysis £000	Amounts in the I&E not in the Segmental Analysis £000	Amounts in the Segmental Analysis not in the I&E £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total (CIES) £000
INCOME								
Fees, charges and other service income	(56,804)					(56,804)		(56,804)
Interest and Investment Income						0	(1,397)	(1,397)
Income from Council Tax						0	(84,075)	(84,075)
Government grants and Contributions	(237,759)		0			(237,759)		(237,759)
Total income	(294,563)	0	0	0	0	(294,563)	(86,147)	(380,035)
EXPENDITURE								
Employee expenses	94,187				(20,824)	73,363		73,363
Other service expenses	340,727		(41,591)		(11,120)	288,016		288,016
Support Service Recharges	37,479				(5,872)	31,607		31,607
Depreciation, Amortisation & Impairment			15,907		(1,683)	14,224		14,224
Interest Payments						0	11,533	11,533
Precepts and Levies						0	915	915
Payments to Housing Capital Receipts Pool						0		0
Gain or Loss on Disposal of Fixed Assets						0	1,683	1,622
Total expenditure	472,394	0	(25,684)	0	(39,500)	407,210	14,131	421,280
Surplus or deficit on the provision of services	177,831	0	(25,684)	0	(39,500)	112,647	(72,016)	41,245

Reconciliation to Surplus/Deficit on Provision of Services	£000
Subjective Analysis	41,244
Contribution to Housing Pool Receipts	68
Financing and investment income and expenditure not included in Subjective Analysis	(5,688)
HRA (discontinued ops)	602
Taxation and non specific grant	(177,559)
Income from Council Tax	84,075
Surplus/Deficit on Provision of Services	(57,257)

2009/10 Comparatives	Net Expenditure: Segmental Analysis £000	Net Expenditure of Services not included in the Segmental Analysis £000	Amounts in the I&E not in the Segmental Analysis £000	Amounts in the Segmental Analysis not in the I&E £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
INCOME								
Fees, charges and other service income	(62,473)					(62,473)		(62,473)
Interest and Investment Income						0	(2,750)	(2,750)
Income from Council Tax						0	(84,767)	(84,767)
Government grants and Contributions	(216,204)					(216,204)		(216,204)
Total income	(278,678)	0	0	0	0	(278,678)	(87,517)	(366,195)
EXPENDITURE								
Employee expenses	93,935				(21,514)	72,421		72,421
Other service expenses	325,419		361		(12,253)	313,527		313,527
Support Service Recharges	34,074				(3,946)	30,128		30,128
Depreciation, Amortisation & Impairment			60,382		(400)	59,982		59,982
Interest Payments						0	22,551	22,551
Precepts and Levies						0	927	927
Payments to Housing Capital Receipts Pool						0	656	656
Gain or Loss on Disposal of Fixed Assets						0	2,863	2,863
Total expenditure	453,428	0	60,743	0	(38,113)	476,058	39,331	503,055
Surplus or deficit on the provision of services	174,751	0	60,743	0	(38,113)	197,381	(60,520)	136,861

Reconciliation to Net Operating Expenditure in Comprehensive Income and Expenditure Account	£000
Subjective Analysis	136,861
Financing and Investment income and expenditure not included in subjective analysis	12,477
HRA (discontinued ops)	423,111
Taxation and non specific grant	(224,497)
Income from Council Tax	84,767
Net Operating Expenditure	432,719

29. ACQUIRED AND DISCONTINUED OPERATIONS

The Council disposed of its housing stock to Merton Priory Homes, a registered social landlord, in March 2010. Permission has been granted by the CLG to close the HRA from the 1st April 2011. There were no other acquired or discontinued operations in 2010/11.

30. TRADING OPERATIONS

The Council has established trading units where the service is required to operate in a commercial environment and balance its budget by generating income from other parts of the Authority or from other organisations. A brief description is given below:

- Industrial Estates: Commercial property rents and service charges.
- Printing and Graphic Design: Design and printing of official documents.
- Translation Services: Provides translation and interpreting services.
- Transport: Recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment (CHAS): The Council provides health and safety training and courses for other local authorities.

Included in Cost of Services		2009/10 £000	2010/11 £000
Industrial Estates	Turnover	2,433	3,390
	Expenditure	249	(7,122)
	(Surplus)/Deficit	(2,184)	(10,512)
Included within Other Operating Expenditure		2009/10 £000	2010/11 £000
Printing and Graphic Design	Turnover	761	687
	Expenditure	978	1,078
	(Surplus)/Deficit	217	391
Translation Services	Turnover	386	351
	Expenditure	405	402
	(Surplus)/Deficit	19	51
Transport	Turnover	10,026	9,835
	Expenditure	10,000	9,802
	(Surplus)/Deficit	(26)	(33)
Contractors Health and Safety Assessment Scheme (CHAS)	Turnover	2,928	3,020
	Expenditure	1,990	2,207
	(Surplus)/Deficit	(938)	(813)
All schemes within net operating expenditure	Turnover	14,101	13,893
	Expenditure	13,373	13,680
Sub total	(Surplus)/Deficit	(728)	(213)
All trading operations		2009/10 £000	2010/11 £000
	Turnover	16,534	17,283
	Expenditure	13,622	6,558
Total	(Surplus)/Deficit	(2,912)	(10,725)

1. Industrial Estates 2009/10 figures restated for IFRS. The others did not require adjustment.
2. Industrial Estates 2010/11 includes revaluation gains of £8.92m. If these are excluded the comparable figures are 2009/10 surplus £2.184m, 2010/11 surplus £1.592m.

31. AGENCY SERVICES

The Code stipulates that an Authority is acting as an agent in situations or circumstances ‘where the authority is acting as an intermediary’. It is acting as a principal in situations or circumstances ‘where the authority is acting on its own behalf’. Using this distinction, this Authority does not act as an agent.

32. ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The Council does not operate any road charging schemes under the Transport Act 2000.

33. POOLED BUDGETS – Partnerships - Section 75

During 2010/11 the Council has continued to operate the Partnership Agreements with Sutton & Merton Primary Care Trust, under Section 75 of the National Health Service Act 2006, to provide learning disabilities and integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services. At this stage, the Learning Disabilities pooled fund covers day services, a joint social work/community team and the Learning Disabilities Development Fund (LDDF). A summary of the income and expenditure is given below :

Pooled Fund for Community Equipment Services in Merton Memorandum Account for the year ending 31 March 2011	Total 2009/10 £000	Learning Disability 2010/11 £000	Community Equipment 2010/11 £000	Total 2010/11 £000
INCOME				
PARTNERS' CONTRIBUTIONS				
Brought forward	1206	642	(91)	551
Refund of LBM Contributions	(200)	0	0	0
LB Merton	2891	2,313	464	2,777
Sutton & Merton PCT	1494	1,287	354	1,641
Additional From PCT	0	0	250	250
Learning Disabilities Development Fund (LDDF)	143	143	0	143
TOTAL CONTRIBUTIONS	5,534	4,385	977	5,362
EXPENDITURE				
Joint Team	1130	998	0	998
Day Services	2432	2,439	0	2,439
LDDF	123	163	0	163
Transfer to PCT	0	105	0	105
Transfer to LD Projects	0	73	0	73
Community Equipment Services	1111	0	795	795
Management & Support Costs	187	138	0	138
TOTAL EXPENDITURE	4,983	3,917	795	4,712

34. MEMBERS' ALLOWANCES

The London Borough of Merton paid the following amounts to members of the council during the year:

	2010/11 £000	2009/10 £000
Salaries	0	0
Allowances	787	791
Expenses	0	0
Total	787	791

35. OFFICERS' REMUNERATION

The table below shows the number of staff whose total remuneration, excluding pensions contribution but including gross salary, expense allowances, supplements, compensation for loss of office (i.e. redundancy) and benefits, exceed £50,000 in bands of £5,000. To aid transparency the bracketed figures under "Other Staff" include those who also received redundancy within their remuneration.

Remuneration Band £	2009/10 Teaching Staff	2009/10 Other Staff	2010/11 Teaching Staff	2010/11 Other Staff
	Restated	Restated		
50,000 – 54,999	66	35 (35)	77	43 (47)
55,000 – 59,999	33	19 (19)	33	20 (22)
60,000 – 64,999	20	16 (16)	19	9 (13)
65,000 – 69,999	21	15 (15)	20	8 (13)
70,000 – 74,999	11	15 (15)	10	12 (13)
75,000 – 79,999	5	8 (9)	8	1 (1)
80,000 – 84,999	1	4 (8)	2	4 (5)
85,000 – 89,999	1	2 (3)	1	4 (4)
90,000 – 94,999	2	2 (3)	2	0 (1)
95,000 – 99,999	0	0 (1)	2	1 (1)
100,000 – 104,999	0	1 (3)	1	0 (2)
105,000 – 109,999	0	0 (0)	0	0 (2)
110,000 – 114,999	1	0 (1)	1	2 (2)
115,000 – 119,999	0	0 (0)	0	0 (1)
120,000 – 124,999	0	0 (0)	0	0 (0)
125,000 – 129,999	0	1 (1)	0	1 (2)
130,000 – 134,999	0	0 (0)	0	1 (1)
135,000 – 139,999	0	2 (2)	0	2 (2)
140,000 – 144,999	0	0 (1)	0	0 (0)
145,000 – 149,999	0	0 (0)	0	0 (0)
150,000 – 154,999	0	0 (0)	0	0 (0)
155,000 – 159,999	0	0 (0)	0	0 (0)
160,000 – 164,999	0	0 (0)	0	0 (0)
165,000 – 169,999	0	0 (0)	0	0 (0)
170,000 – 174,999	0	0 (0)	0	0 (0)
175,000 – 179,999	0	0 (0)	0	0 (0)
180,000 – 184,999	0	1 (1)	0	0 (0)
185,000 – 189,999	0	0 (0)	0	1 (1)
	161	121 (133)	176	109 (133)

In accordance with Regulation 4 of the Accounts and Audit Regulations (Amendment No.2) (England) 2009, a new legal requirement has been introduced to increase transparency and accountability in Local Government for reporting the remuneration of senior employees:

- Senior employees whose salary is £150,000 or more per year must be identified by name
- Senior employees who meet the regulation's definition and whose salary is between £50,000 and £150,000 must be listed by job title. Current Directors have chosen to be named to aid transparency.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2010/11		Remuneration (Including fees & Allowances) 2010/11	Employer's Pension contributions	Total Remuneration including pension contributions 2010/11
Post holder information	Sub- Notes	£	£	£
Chief Executive Ged Curran	1	186,250	26,075	212,325
Director of Corporate Services Caroline Holland	2	135,000	18,900	153,900
Director of Community and Housing Simon Williams	3	136,096	19,053	155,149
Director of Children, Schools and Families Yvette Stanley	4	125,345	17,549	142,894
Director of Environment & Regeneration Chris Lee	5	134,493	18,900	153,393
Director of Transformation Chris Pope OBE	6	112,917	15,808	128,725
2009/10 Restated		Remuneration (Including fees & Allowances) 2009/10	Employer's Pension contributions	Total Remuneration including pension contributions 2009/10
Post holder information	Sub- Notes	£	£	£
Chief Executive Ged Curran	7	181,429	26,260	207,689
Director of Corporate Services Caroline Holland	8	138,252	19,308	157,560
Director of Community and Housing Simon Williams		136,436	19,053	155,489
Director of Children, Schools and Families Yvette Stanley		125,428	17,548	142,976
Director of Environment & Regeneration	9	0	0	0
Director of Environment & Regeneration Chris Lee	10	93,993	13,209	107,202
Director of Transformation Chris Pope OBE	11	49,200	6,895	56,095
Assistant Chief Executive	12	24,156	3,219	27,375

- Sub-note 1: Mr G Curran, Chief Executive's remuneration for 2010/11 was made up as follows; Salary 185,000 plus backdated pay award £1,250. The following additional separate payments were received, LA Gold Allowance (Pan London Emergency Planning) £500 and for Returning Officer duties for the Parliamentary and Council Elections £13,640.

- Sub-note 2: Ms C Holland, Director of Corporate Services also received additional separate payments for ; LA Gold Allowance (Pan London Emergency Planning) £500 and for Deputy Returning Officer duties for the Parliamentary and Council Elections £2,500.
- Sub-note 3: Mr S Williams, Director of Community and Housing also received an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £689.
- Sub-note 4: Ms Y Stanley, Director of Children, Schools and Families received an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £586.
- Sub-note 5: Mr C Lee, Director of Environment and Regeneration received an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £760.
- Sub-note 6: Mr C Pope OBE, Director of Transformation's remuneration for 2010/11 was made up as follows: Salary: £90,000, Additional roles and responsibility allowance £22,917. There was also an additional separate payment for Inspection and Senior Count duties for the Parliamentary and Council Elections of: £720.
- Sub-note 7: Mr G Curran, Chief Executive also received additional separate payments for ; LA Gold Allowance (Pan London Emergency Planning) £1,200 and for Returning Officer duties for the European Election: £6,657.
- Sub-note 8: Ms C Holland, Director of Corporate Services remuneration for 2009/10 was made up as follows: Salary £135,000 plus backdated pay £3,252. The following additional and separate payments were also received ; LA Gold Allowance £1,200 and for Deputy Returning Officer duties for the European Election: £800.
- Sub-note 9: The Director of Environment and Regeneration post from 17/02/2009 to 19/07/2009 was covered by an Interim Director, provided through a specialist consultancy company.
- Sub-note 10: Mr C. Lee, Director of Environment and Regeneration commenced employment on 20/07/2009 at an annualised remuneration of £135,000.
- Sub-note 11: Mr C. Pope OBE, Director of Transformation commenced employment on 14/09/2009 at an annualised remuneration of £90,000.
- Sub-note 12: The former Assistant Chief Executive left on 28/06/2009; the annualised salary for the post was £94,075.

36. EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2010/11 £000	2009/10 £000
Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor for the year	350	330
Fees payable to Audit Commission in respect of statutory inspections	0	20
Fees payable to Audit Commission for the certification of grant claims and returns for the year	80	80
Fees payable in respect of other services provided by Audit Commission during the year	0	2
Total	430	432

37. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Children, Schools and Families. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2010/11 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total Expenditure £000
Brought forward from 2009/10	920	0	920
Final DSG for 2010/11	17,907	87,559	105,466
In year reallocation of DSG	0	788	788
DSG Available	18,827	88,347	107,174
Less Actual Central Expenditure 2010/11	(15,901)	0	(15,901)
Less Actual Individual Schools Budgets 2010/11	0	(88,473)	(88,473)
Local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	2,926	(126)	2,800

Note: The £2.8m is split between the DSG reserve (£2.5m) and Single Status reserve (£0.3m). See Note 8.

38. GRANT INCOME

The London Borough of Merton credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

The London Borough of Merton has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2009/10 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Collection Fund	(84,507)	(83,817)
Revenue Support Grant	(12,778)	(8,846)
Business Rates	(54,233)	(59,145)
Area Base Grant	(7,655)	(10,111)
Capital Grant Income	(31,214)	(9,651)
Performance Review Grant		(1,192)
PFI Contribution	(4,797)	(4,797)
Grant from Communities and Local Government to pay HRA debt	(24,090)	
Grant from Communities & Local Government for debt premium	(5,223)	
Total	(224,497)	(177,559)
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(107,271)	(117,490)
Housing Benefits Subsidy	(53,847)	(76,255)
Council Tax Benefits	(14,321)	(14,700)
Standards Fund 1.1 School Development Grant	(3,771)	(3,952)
Children's Centres	(1,201)	(1,878)
Benefits Administration	(1,651)	(1,496)
Standards Fund 1.10 Early Years		(1,345)
Standards Fund 1.6 Extended Schools Sustainability		(1,032)
Rent Rebates	(15,870)	
Supporting People Contracts	(3,517)	
General Sure Start Grant	(1,075)	
Adult Education Main	(1,006)	
	(203,530)	(218,148)
Total grants under £1million	(13,122)	(19,134)
Total Grants	(216,652)	(237,282)
Contributions over £1million		
Schools Contribution to PFI Schemes Facilities Management	(1,679)	(1,723)
Retention in Drug Treatment Services	(1,166)	(1,063)
	(2,845)	(2,786)
Total contributions under £1million	(8,419)	(9,269)
Total Contributions	(11,264)	(12,055)
Total Grants and Contributions	(227,916)	(249,337)

Capital Grants and Receipts in Advance

	2009/10 £000	2010/11 £000
Government Grants and other contributions		
Standards Fund	(1,023)	(1,306)
Other Grants and Contributions	(1,092)	(2,416)
	(2,115)	(3,722)
Section 106	(6,064)	(6,759)
Schools Capital Grant	(1,312)	(1,143)
Total	(9,491)	(11,624)

39. RELATED PARTIES

During the year, transactions with related parties arose as follows:

Central Government

	2009/10 Payments / (Receipts) £000	2010/11 Payments / (Receipts) £000
Central Government		
- Revenue Support Grant	(12,778)	(8,846)
- Receipts from NNDR Pool	(54,233)	(59,145)
- Area Based Grant	(7,655)	(10,111)
- Levy by the Environment Agency	146	148
- Performance Reward Grant	0	(1,192)
Precepting Authorities and Other Bodies		
- Greater London Authority precept	23,034	23,650
Levying Bodies – Levies paid		
- London Pensions Fund Authority	296	283
- Lee Valley Authority	225	227
- Wimbledon and Putney Commons Conservators	260	258

Members and Chief Officers

This disclosure note has been prepared using the Council's Register of Members' Declarations of Interest in addition to a specific declaration obtained in respect of related party transactions from Members and Chief Officers.

The Council issued 96 standard letters to current Members (60), Independent Chairman of the Audit Committee (1), current and ex-Senior Officers (29) and Independent Committee Member (6).

There were responses from 60 current Members, 1 Chairman of the Audit Committee, 6 Independent Committee members, 29 current and ex-Senior Officers. There were related party disclosures as follows:

Councillors and officers have also declared their interest in voluntary and other organisations and bodies. The Council made grants and payments totalling £0.729m to declared voluntary organisations in 2010/11 and where the amounts paid was more than £100,000, the exact amount is shown.

Cllr Margaret Brierly and Cllr Philip Jones are trustees of Merton & Morden Guild of Social Services and Cllr Peter Southgate and Cllr Gilli Lewis-Lavendar are members of the management committee. This organisation receives funding from the Council.

Cllr Nick Draper, Cllr Maurice Groves, Cllr Judy Saunders, Cllr Henry Nelles and Cllr Krysia Williams are board members of Merton Priory Homes, a registered social landlord to whom the Council's housing stock was transferred.

Cllr Iain Dysart, Cllr Henry Nelles, Cllr Krystal Miller and Cllr Edith Macauley are trustees of South Wimbledon Community Association which receive funding from the Council.

Cllr Linda Kirby is the Chair of the North East Mitcham Community Centre and Chair of the North Mitcham Parks Field Group.

Cllr Geraldine Stanford is a member of the management committee of the North East Mitcham Community Association.

Cllr Edith Macauley is the Chair of the African Development and Cultural Organisation which receives funding from the Council and also is a Trustee Member of the Ethnic Minority Centre which also receives funding from the Council.

Cllr Henry Nelles is a trustee of Deen City Farm, an organisation that received £131,575 in funding and payments from the Council.

Cllr Dennis Pearce is the Chair of Friends of St Helier Day Care for the elderly, which receives funding from the Council.

Cllr Oonagh Moulton is a Trustee of the Polka Childrens Theatre, an organisation which receives funding from the Council.

Cllr Martin Whelton, Cllr Agatha Akyigyina and Cllr Greg Udeh are Trustees of the Commonsides Development Trust which received grant funding from the Council.

Cllr David Williams and Cllr Miles Windsor are members of the Endeavour Youth Club which receives grant funding from the Council.

The Independent Chair of the Audit Committee, Dave Roberts declared a non-pecuniary interest in Equinox Care, a charity which provides drug and alcohol services across London and received funding from the Council of £175,000 in 2010/11.

Officer Simon Williams, Director of Community & Housing, is a non-remunerated trustee of Seeability, a charity that has a contractual relationship with the Council.

Pension Fund

The Pension Fund an administration fee of £0.195m in 2010/11 (£0.164m in 2009/10). (Reference Pension Fund, Note 12). At the Balance Sheet date the Pension Fund owed £1.826m to the Council and paid over interest of £0.017m.

40. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the London Borough of Merton, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the London Borough of Merton that has yet to be financed. The CFR is analysed in the second part of this note.

	2009/10 £000	2010/11 £000
Opening Capital Financing Requirement	179,789	176,978
Capital Investment		
Property, Plant and Equipment	46,618	38,310
Investment Properties	607	7
Intangible Assets	958	453
Revenue Expenditure Funded from Capital Under Statute	7,794	7,793
Sources of Finance		
Capital receipts	0	(29)
Government grants and other contributions	(26,472)	(23,694)
Government Grant (Transfer of Housing Stock)	(24,090)	0
Sums set aside from revenue:		
Leasing Creditor Adjustment	0	(246)
Direct revenue contributions	(1,772)	(2,453)
MRP	(8,193)	(7,834)
Write down of PFI Liability	1,356	1,247
Movement in Major Repairs Reserve	383	0
Closing Capital Financing Requirement	176,978	190,532
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	7,605	4,902
Increase (decrease) in underlying need to borrowing (unsupported by government financial assistance)	(12,155)	7,651
Write down of PFI Liability	1,356	1,247
Movement in Major Repairs Reserve	383	0
Lease Creditor Adjustment	0	(246)
Assets acquired under finance leases	0	0
Assets acquired under PFI/PPP contracts	0	0
Increase/ (decrease) in Capital Financing Requirement	(2,811)	13,554

41. LEASES

Authority as Lessee

Finance Leases

The Council has acquired a variety of assets, including operational buildings and IT equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

31 March 2010 £000		31 March 2011 £000
2,352	Other Land and Buildings	2,348
2,165	Vehicles, Plant, Furniture and Equipment	1,135
4,517		3,483

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Authority in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

31 March 2010 £000		31 March 2011 £000
	Finance lease liabilities (net present value minimum lease payments):	
834	Current	615
1,703	Non current	879
304	Finance costs payable in future years	112
2,841	Minimum lease payments	1,606

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Not later than one year	695	989	615	834
Later than one year and not later than five years	536	1,322	504	1,181
Later than five years	375	530	375	522
	1,606	2,841	1,494	2,537

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent

reviews. In 2010/11 £0k contingent rents were payable by the Authority (2009/10 £107k)

Operating Leases

The Council has acquired Land, Buildings and Vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
205	Not later than one year	216
550	Later than one year and not later than five years	502
126	Later than five years	114
881		832

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2009/10 £000		2010/11 £000
881	Minimum lease payments	832
0	Contingent rents	0
0	Sub-lease payments receivable	0
881		832

Authority as Lessor

Finance leases

The Council has leased out property at a number of sites across the borough on a finance lease basis. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding.

The gross investment is made up of the following:

31 March 2010 £000		31 March 2011 £000
	Finance lease debtor (net present value of minimum lease payments):	
199	- current	189
3,809	- non current	3,620
5,805	Unearned finance income	5,435
685	Unguaranteed residual value of property	
10,498	Gross investment in lease	9,903

The gross investment in the lease and the minimum lease payments will be received over the following period:

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Not later than one year	543	595	543	568
Later than one year and not later than five years	2,141	2,174	2,078	2,123
Later than five years	7,219	7,729	6,623	7,122
	9,903	10,498	9,244	9,813

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £123k contingent rents were receivable by the Authority (2009/10 £153k)

Operating Leases

The Council leases out property and equipment under operating leases for the following purpose:

- For the provision of community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2010		31 March 2011
£000		£000
2,248	Not later than one year	2,152
7,401	Later than one year and not later than five years	6,774
60,944	Later than five years	59,418
70,593		68,344

The minimum lease payments are receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £0k contingent rents were receivable by the Council (2009/10 £0k).

42. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Council has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools. Following a partial termination of the contract, two schools were transferred to academies. The PFI scheme provides for an annual payment to NewSchools, the PFI operator.

Value of Assets Held

The Council's accounts include school buildings constructed under the PFI scheme. The valuation in Note 12 (£67.787m) includes land to the value of £19.781m:-

	31 st March 2010 £000	31 st March 2011 £000
Gross Value	44,439	70,818
Accumulated Depreciation	(993)	(3,031)
Net	43,446	67,787

Value of Liabilities

The Council has two long term liabilities relating to the original PFI scheme of six schools. The first liability is in respect of the capital works on the two schools that became academies. The second liability is in respect of the capital works incurred on the four remaining schools within the PFI scheme.

Total

	Capital £000	Interest £000	Services £000	Total £000
Mar 2012	1,052	3,567	2,913	7,532
Mar 2013 – 2016	4,848	13,846	12,702	31,396
Mar 2017 – 2021	8,236	17,269	18,588	44,093
Mar 2022 – 2026	11,289	16,036	21,925	49,250
Mar 2027 – 2030	13,752	15,356	15,095	44,203
Total	39,177	66,074	71,223	176,474

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2012	453	1,206	0	1,659
Mar 2013 – 2016	2,159	4,477	0	6,636
Mar 2017 – 2021	3,693	4,602	0	8,295
Mar 2022 – 2026	5,223	3,072	0	8,295
Mar 2027 – 2030	5,697	939	0	6,636
Total	17,225	14,296	0	31,521

Four Schools

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
Mar 2012	599	2,361	2,913	5,873
Mar 2013 – 2016	2,689	9,369	12,702	24,760
Mar 2017 – 2021	4,543	12,667	18,588	35,798
Mar 2022 – 2026	6,066	12,964	21,925	40,955
Mar 2027 – 2030	8,055	14,417	15,095	37,567
Total	21,952	51,778	71,223	144,953

43. IMPAIRMENT LOSSES

The Council carried out an impairment review in 2010/11, the result of which was that there were no impairment losses recognised in 2010/11.

44. CAPITALISATION OF BORROWING COSTS

Borrowing costs are expensed as incurred and included in interest payable (Note 10).

45. TERMINATION BENEFITS

The Council terminated the contracts of 90 employees in 2010/11, incurring liabilities of £2.07m (£6.97m in 2009/10).

46. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

The Teachers Pension Scheme is a funded, defined benefit final salary scheme administered by the Department for Children, Schools & Families (DCSF). However, as the Council only acts as an intermediary, passing on the contributions to the DfES, it is unable to identify its share of the underlying assets and liabilities, which is why it is not included as a pension liability in the balance sheet. Instead, the Council pays an employers' contribution, which is supported by a five-yearly actuarial review and charged to the accounts, of 14.1% (2010/11), 14.1% (2009/10) to the DfES. There were no material prepaid or accrued pension contributions at the Balance Sheet date. Contributions for the current and previous year were:

	2009/10 £000	2010/11 £000
Council's contribution to DCSF teachers' pension scheme	6,449	5,845

The added years' payments awarded by the Authority in respect of the Teachers' Pension Scheme were £10,325 in 2010/11 (£10,776 in 2009/10).

47. DEFINED BENEFIT PENSION SCHEMES

Transactions Relating to Post-employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a gain of £102m (a loss of £115m in 2009/10).

Participation in Pension Schemes

	Local Government Pension Scheme	
	2009/10 £000	2010/11 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	(9,426)	(15,283)
Past service cost	(11)	43,518
Settlements and curtailments	(1,592)	(546)
Finance and Investment Income and Expenditure		
Interest cost	(23,749)	(27,799)
Expected return on scheme assets	15,464	23,248
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	(19,314)	23,138
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	(115,437)	101,877
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(134,751)	125,015
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	19,314	(23,138)
Actual amount charged against the General Fund Balance for Pensioners in the year		
Employers' contributions payable to scheme	16,014	14,394

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Reconciliation of fair value of the scheme (plan) assets:

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000
Present value of Scheme Liabilities					
The Local Government Pension Scheme (LGPS)	(404,288)	(373,496)	(348,121)	(533,352)	(443,886)
Unfunded Liabilities	(12,426)	(10,227)	(9,378)	(25,544)	(10,491)
Fair value of assets in the LGPS	297,161	288,915	233,837	316,496	351,387
Surplus/(deficit) in the scheme	(119,533)	(94,808)	(123,662)	(242,400)	(102,990)
Experience adjustments arising on Scheme assets as a % of assets		1.2%			
Value of assets		(3,458)			
Scheme liabilities as a % of liabilities		0.5%			
Value of liabilities		(1,866)			

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £454.4m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £102.9m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The authority, through the advice of the actuary, provides additional employers contribution to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2009/10	2010/11
Long-term expected rate of return on assets in the scheme:	%	%
Equity investments	8	7.9
Gilts	4.5	4.4
Property	5.5	5.4
Cash	3	3
Mortality Assumptions:	Years +	Years +
Longevity at 65 for current pensioners retiring today at 65:		
Men	20.41	19.8
Women	23.43	23.9
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	21.12	21.9
Women	24.13	25.8
Rate of inflation	3.9	2.7
Rate of increase in salaries	5.4	5.0
Rate of increase in pensions	3.9	2.7
Rate for discounting scheme liabilities	5.5	5.5
Take up of option to convert annual pension into retirement lump sum	50	50

History of Experience Gains and Losses

	2006/07	2007/08	2008/09	2009/10	2010/11
Amounts for the current and previous four periods	£000	£000	£000	£000	£000
Defined Benefit Obligation	(454,377)	(558,896)	(357,499)	(383,722)	(416,715)
Scheme Assets	351,387	316,497	233,837	288,915	297,161
Surplus (Deficit)	(102,990)	(242,399)	(123,662)	(94,808)	(119,553)
Experience adjustments on Scheme liabilities	37,092	(15,844)	0	(1,866)	0
Percentage of liabilities	8.2%	-2.8%	0%	0.5%	0%
Experience adjustments on Scheme Assets	12,996	73,831	(78,432)	(32,176)	(5,905)
Percentage of assets	3.7%	23.3%	-33.5%	-11.1%	-2%
Cumulative Actuarial Gains and Losses	(2,299)	(104,176)	11,261	34,639	8,920

48. CONTINGENT LIABILITIES

Local Land Charges

There is a pending High Court action for repayment of fees, brought by a Personal Search Company against most local authorities in the country. The Local Government Association is providing legal representation for local authorities. No date for the hearing has been confirmed yet and a value cannot be reliably estimated at present.

Employment Disputes

There are five employment disputes where the Council could be subject to a financial liability. The maximum liability for these is estimated to be £0.27m. However due to the inherent uncertainties surrounding their outcome, the council has not made a provision for these in the accounts.

Special Education Needs

There are currently two appeal cases ongoing regarding parents seeking independent special schools placements. The maximum liability of these cases is £0.13m per annum.

Special Guardianship Support Policy

A claim has been lodged for judicial review against the Council's Special Guardianship Support Policy. A successful challenge could mean that the council will have to pay more to special guardians, which could have a significant ongoing financial implication.

Section 106 Dispute

Proceedings have been commenced against the Council in relation to the validity of a Section 106 agreement requiring repair of the Wandle Industrial Museum building. An estimate of the likely value cannot be estimated at present.

49. CONTINGENT ASSETS

Legal Fees Recovery

The council has obtained an order for the disposal of property in relation to the recovery of costs in a court case. However this has been appealed and the matter is subject to the court process.

Empty Property Grant

The Council is issuing proceedings against a property developer for the recovery of Empty Property Grants. The Council hopes to recover £0.06m.

VAT

During 2009/10 and 2010/11 the Council made a number of claims for overpaid output tax. Some of these were settled in 2009/10.

50. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises in the lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Council's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies. The minimum credit criteria for 2009/10 was as follows:

Category	Rating	Fitch definition
Short Term	F1	Highest credit quality on a 12-month view.
Long Term	AA	Very low expectation of credit risk developing
Individual (<i>Relative performance</i>)	C	Adequate institution with limited weaknesses
Prospect of external support	1	Expectation of Central Government support

In addition to deposits in higher rated deposit-takers, the authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as Local Authorities. At 31st March 2011 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Rating
UK Clearing Banks	73,000	85	5	F1, AA, 1
UK Building Society	13,000	15	1	F1, AA, 1
Local Authority	0	0	0	N/A
Money Market Funds	0	0	0	AAA
	86,000	100	6	

A high credit standard increases concentration of deposits in fewer institutions than would ideally be the case. However, it is considered that in prevailing market circumstances high credit quality is crucial, and outweighs the alternative of a wider spread of deposits across less well-rated counterparties. As and when credit ratings allow, efforts will be made to spread investment across additional deposit-takers.

Long Term Debtors

The Council's remaining mortgages are secured on the properties and the Business Investment Fund is funded by a non-repayable government loan. For all debts there are formal repayment arrangements.

Trading Debtors

No losses or impairments were incurred in 2010/11, nor are expected for the duration of current deposits. The Council does not generally allow credit for customers. All trade and other payables are due to be paid in less than one year. The past-due amount can be analysed by age as follows:

	31 March 2010	31 March 2011
	£000	£000
< 3 months	6,866	6,866
3 to 12 months	871	871
> 1 year	1,152	1,152
Total	7,840	8,889

The Council's maximum potential exposure to credit risk is with its trade debtors for which prudent provision has been made.

Cash

The Council's cash balances are held in UK Clearing banks and when the balance is significant, deposits are spread across a number of institutions to reduce risk.

Liquidity Risk

The Council's ability to pay its financial commitments as and when due is supported by substantial resources. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from the Money Markets and the Public Works Loans Board.

The maturity analysis of financial liabilities is set out in the following table. This maturity profile is designed to limit the consequence of *significant amounts of* finance being required when market conditions are difficult or expensive. The maximum value of maturities in any single year is 15%, higher than normal exposure. This has been caused by the effect of debt redemptions in 2009/10 and it will be addressed by future debt management exercises.

	31 March 2010	31 March 2010	31 March 2011	31 March 2011
	£000	%	£000	%
Under 12 months	139	<1	20,224	13
1yr to 2 yrs	124	<1	0	0
2yrs to 5yrs	0	0	0	0
5yrs to 10yrs	10,966	8	17,966	12
10yrs and over	120,100	91	113,010	75
	131,239	100	151,200	100

The above represents the nominal exposure to debt maturities, but some Lenders Option (LOBO) debt allows the Lender to prompt a repayment by requesting an interest rate change that is unacceptable to the Authority. The risk of this occurring is limited by the current rate of interest on such debt, which is higher than current and forecast levels. In addition, if redemption were required, the Authority has adequate resources to finance it, and its occurrence would currently offer the prospect of cost saving.

LOBO debt Option exposure when market rates in range of:	Prospectively repayable/ requiring Re-finance £000	Proportion of total debt %
4.00 – 4.99%	5,000	3.31
5.00 – 5.99%	34,000	22.49
6.00 – 6.99%	15,500	10.25
7.00 – 7.99%	2,000	1.32
8.00 – 8.99%	6,500	4.3

Of the above, only the £5m of debt in the 4.00 – 4.99% band is reasonably in prospect of option exercise in 2011/12, and this amount is not considered problematic in liquidity or re-financing terms. Liquidity is supported by the significant funds the Council has under short-term cash investment. Fixed-interest-rate deposits (investments) are placed in maturities that balance the need to support liquidity for day-to-day cash flow needs with the spreading of investments over a range of periods to optimise investment return.

At 31st March 2011 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows.

	£000	%
April to June 2010	76,000	88
July to September 2010	10,000	12
October to December 2010	0	0
January 2009 to March 2011	0	0
	86,000	100

Given the resources available, the Authority did not experience any significant liquidity problems in 2010/11 and does not anticipate any for 2011/12.

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments as follows:

- Borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise or fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise or fall accordingly.
- Borrowing at fixed rates – the fair value of the borrowing liability will fall if market rates rise and increase if they fall.
- Investments at fixed rates – the fair value of the assets will fall if rates rise and increase if rates fall.

If market interest rates move by 0.5% and 1%, with other variables held constant, the financial effect on the portfolio is estimated to be:

	£000	0.50% £000	1.00% £000	Mitigation
Borrowings	151,200	756	1,512	In the short-medium term the majority of borrowing is unaffected, being on an effectively fixed rate basis. Prior to the end of 2011/12, the profile of investments protects the budget from lower interest rates, whilst higher rates act to improve the return.
Investments	86,000	430	860	
Impact on CIE		373	652	

Fair Value	0.50% £000	1.00% £000	Comment
Borrowings	11,815	22,403	Fair value falls on increased market rates, and rises on reductions. This is because the interest rates on current loans become less or more expensive relative to prevailing market rates. These are valued at current market rates, which correspond to fair value.
Investment Deposits	0	0	

Borrowings

The Council's portfolio of borrowings is effectively on long-term fixed rates, and the consequence of exposure to short-term rate movements is very limited. Prudential Indicators, incorporated into Treasury Strategy, set limits to control exposure to this prospective risk and the policy of maintaining a spread of transaction maturities over time acts to average and moderate the consequences of interest rate movements.

Prudential Indicator Limits

Maximum % exposure to	2010/11	2011/12	2012/13	2013/14
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31st March 2011 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The prospective refinance rate is a normal level of Public Works Loans Board interest rate for long-term finance. This is considered an appropriate and cautious rate to use at present although this may change over time.

Maturity in	Actual at 31 st March 2011 £000	Current average interest rate %	Prospective re-finance rate %	Margin %	Effect (Saving or Increased cost) £000 pa
Under 12 months	20,224	2.67	5.3	2.63	(531)
1yr to 2 yrs	0	0	5.3	5.30	0
2yrs to 5yrs	0	0	5.3	5.30	0
5yrs to 10yrs	17,966	9.43	5.3	(4.13)	742
10yrs to 15yrs	30,150	6.37	5.3	(1.07)	326
15yrs to 20yrs	8,000	6.36	5.3	(1.06)	85
20yrs to 30yrs	9,000	5.62	5.3	(0.32)	29
30yrs to 40yrs	13,500	6.64	5.3	(1.34)	181
40yrs to 50yrs	32,000	5.04	5.3	0.26	(83)
50yrs to 55yrs	20,000	5	5.3	0.30	(60)
	151,200				

At the currently forecast re-financing rate, which is considered reasonable in an environment where the Bank of England effects efficient control over inflation, re-financing is expected to be at lower cost.

Investments

Investment strategy seeks to exploit the forecast trend in interest rates. If rates are expected to rise, then investments tend to be placed on variable rate terms or short fixed period to allow early re-investment at higher rates. If they are expected to fall, an extended fixed period will maintain income at a higher rate for longer. However, interest rate forecasts do not imply certainty, and optimising investment returns has to be balanced with the need to maintain adequate liquidity. Against this background a Prudential Indicator controls the balance between short-term investments, influenced by liquidity, and longer strategic investment.

Prudential Indicator Limits

	2010/11	2011/12	2012/13	2013/14
Maximum investment over 1 year as percentage of total investments	40	40	40	40

At 31st March 2011, the investment portfolio's exposure to interest rate change is set out in the following table. The effective reduction of income relative to the interest rates being earned on the portfolio at 31st March 2011 is calculated in proportion to the period in 2011/12 over which it would apply. (i.e. investments maturing in the 0-3 month period would be re-invested at lower rates for 9 months).

Deposit Maturity in:	Actual at 31 st March 2011	Current average interest rate	Prospective re-finance rate	Margin	Reduction of income relative to 31 st March 2011 £000 pa
	£000	%	%	%	
0-3 months	76,000	0.79	0.75	0.04	450
3-6 months	10,000	1.26	1.00	0.26	126
6-9 months	0	0	1.25	0	0
9-12 months	0	0	1.50	0	0
Over 12 months	0	0	0	0	0
	86,000				

The general, precipitate, reduction in market interest rates prompted by the 'credit crunch' and banking crisis impacts significantly on the amount of investment income to be earned in 2011/12. The reduction of income is not a realised portfolio loss, but rather a reflection of movement in the external market, and is to be accommodated by budgetary measures and prospective savings from debt management.

PFI Borrowing

The PFI loans or liabilities and rate of interest payable are derived from the unitary payment schedule with NewSchools and do not change.

Price Risk

The Authority, (excluding its Pension Fund, which is subject to separate reporting), does not currently invest in financial instruments that are subject to market price volatility. If this were to change then the treasury strategy would be developed to manage these risks.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies (other than in respect of its Pension Fund), and thus has no exposure to loss arising from movements in exchange rates.

51. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year end of 31st March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months from the date of acquisition and that is

readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Under statutory guidance from the Department for Communities and Local Government (DCLG), authorities are required to prepare an annual statement on their policy on making MRP. In the published accounts, assets are depreciated over appropriate periods. However, in the charge to the General Fund and consequently to the council tax payer, this depreciation is reversed out and substituted by an MRP charge on the authority's total long term debt. With effect from 1st April 2008 the charge to the General Fund for Prudential Borrowing is more closely aligned to the equivalent of the depreciation charge, rather than previously 4%. The statutory guidance distinguishes between capital expenditure financed by borrowing supported by the Government through the Revenue Support Grant and capital expenditure financed through unsupported (prudential) borrowing. For this latter type of capital expenditure the government allows three options. This authority currently uses the Asset Life Method – Equal Instalment method. The method generates a series of equal annual amounts over the estimated life of the asset. The estimated life of the asset will be that used by the authority for depreciation purposes. Where there is no depreciation equivalent, e.g. capitalisation of redundancy costs, there are national guidelines for the appropriate estimated life. The Equal Instalment method is a prudent approach to MRP, straightforward, understandable and closely aligned with the authority's approach to asset write-down. Depreciation is provided for on all fixed assets (other than land and investment properties) with a determinable finite life, and is calculated on a straight-line basis over the assets estimated useful economic life.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits in lieu of salary (e.g. nursery vouchers, bicycles) where material for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)].
- The Local Government Pensions Scheme, administered by the London Borough of Merton.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the London Borough of Merton pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bond [iBoxx AA rated over 15 Year Corporate Bond]).
- The assets of the London Borough of Merton pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.
- The change in the net pensions liability is analysed into seven components:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the

Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the London Borough of Merton pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured carried at fair value.

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

A Business Improvement District (BID) is a precisely defined area within the local authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment, Willow Lane Industrial Area became Merton's first BID whereby 200 businesses will pay an annual levy over the next five years. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to

an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Interest in Companies and Other Entities

The Council has reviewed its relationships with companies and external organisations and followed the Code guidelines and determined that it has no material subsidiary or associated organisation, which would require either part or complete consolidation into the Statement of Accounts.

xiv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost for new equipment and at Net Realisable Value for reused stock. Net Realisable Value is estimated at 50% of the catalogue price.

xv. Investment Property

Investment properties are those that are used solely to earn rents and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rents received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvi. Jointly Controlled Operations and Jointly Controlled Assets

The authority undertakes jointly controlled operations in conjunction with other bodies. Under these jointly controlled operations, each body uses its own property, plant and equipment and carries its own inventories. These operations do not involve the setting up of an entity or structure that is separate from the individual bodies in the jointly controlled operation. These arrangements are set out below -

Shared Human Resources Service: This is a cost sharing arrangement with the London Borough of Sutton who administer the service and recharge the authority. This recharged cost is accounted for in the Comprehensive Income and Expenditure Account where it is treated as a rechargeable overhead.

South London Waste Partnership (SLWP) : The SLWP is a joint venture with the London Borough of Kingston for the collection and disposal of waste. LB Kingston recharge the authority for their share of the cost and this is accounted for as part of the Cultural, Environmental and Planning Service in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

Pooled Budget: This is a cost sharing arrangement with the Merton and Sutton PCT. The authority's contribution is accounted for in the Adult Social Care line in the Comprehensive Income and Expenditure account. The Balance Sheet contains the value of the pooled aids and adaptations stock.

Greenwich Leisure Limited (GLL): The authority pays GLL to run its leisure centres but retains ownership of those assets. The contribution to GLL is accounted for in the Cultural, Environmental and Planning Services line in the Comprehensive Income and Expenditure Account and the assets are held in the Balance Sheet. The authority has no control over the strategic, financial or operating decisions of the entity.

Merton and Sutton Joint Cemetery Board (MSJCB): This is a separate body run by councillors from the London Boroughs of Sutton and Merton. These boroughs currently contribute to the running costs of the Board. This authority administers the Board's accounts and prepares them at year end and the authority's Head of Finance is Treasurer to the Board. The Net Assets of the Board are only £0.542m at the Balance Sheet date and these amounts are not material.

NewSchools: This company is the Council's PFI provider for its schools' PFI project. This authority pays an annual unitary payment to NewSchools and this is recorded in the Childrens and Education Services line in the Comprehensive Income and Expenditure Account (as payment for services) and in Financing and Investment Income and Expenditure (as payment for loans taken out by Newschools to finance the building of the schools under the scheme). The arrangement with NewSchools is purely contractual.

xvii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant

or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between :

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At

the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service Code of Practice 2010/11* (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xiv. Plant, Property and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- [the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.]

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all fixed assets (other than land) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life. The useful economic life for each asset class is as follows:

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Componentisation is a method, used for accounting and financial reporting purposes, to ensure assets are accurately included on the Balance Sheet and that the consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges.

The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The Authority will follow these requirements where significant components of material items of assets have been identified.

A component is defined as such part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, if the value of the component is 5% or more of the total gross carry value of the building.

Even if the cost of a component is significant in relation to the total cost of an item of PP&E, from an accounting perspective, it is not necessary to identify the value of that component if its useful life and required method of depreciation is in line with the overall asset.

Where there are more than one significant parts of the same asset which have the same useful life and depreciation method such parts will be grouped in determining the depreciation charge.

Componentisation will not be applied retrospectively and will be considered only for new revaluations carried out after 1st April 2010 and when enhancement and/or acquisition expenditure is incurred after that date.

Component accounting will only be considered and applied in cases where the omission to recognise and depreciate a separate component may result in material differences in the statement of accounts.

Componentisation will not be applied to items of PP&E where the depreciation of the item as a single asset is unlikely to result in a material misstatement of either the depreciation charges or the carrying amount of the PP&E.

The Authority recognises two primary components of a property asset which will be accounted for separately namely:

- Land, and
- Buildings

Componentisation is not applicable to land as land is non-depreciable and is considered to have infinite life.

The Authority also recognises three secondary components of the buildings primary component; namely:

- Structure (including the building sub-elements of substructure, superstructure, finishes, sanitary-ware, disposal installation, but excluding fittings and furnishings)
- Services (including sub-elements of mechanical and electrical services installation, such as plant and lifts)
- External Work (including sub-elements of hard landscaping, but excluding playground equipment and soft landscaping)
- In addition, there may be cases where the Valuer feels a particular asset contains unusual components that are deemed material. In these instances specific components would be created specifically for that asset.

On the grounds of materiality, the Authority has determined that any building with a gross carry amount of less than £1,000,000 will not be recognised as having secondary components of the building.

At revaluation the basis for componentisation is fair value (EUV) for the relevant asset class.

Where a component is replaced or restored (i.e. enhancement), the carrying amount of the old component shall be derecognised before reflecting the enhancement. (applicable from 1st April 2010). In respect of property, on grounds of materiality and practicality, this is applied where the new part of the component is greater than £100,000 or, in the case of lesser amounts, where the existing component is specifically identifiable. In respect of all infrastructure expenditure, the equivalent depreciated carrying amount is derecognised.

Disposables and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs of sale. Where there is a subsequent decrease to fair value less costs of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted

off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment to fund debt redemption premiums (or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Capital receipts can be used to pay the premiums on the repayment of those local authority debts which have high fixed interest charges but are also considered for funding parts of the capital programme.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xx. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Schools PFI scheme, the liability was written down by an initial capital contribution of £8.740 million.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost - an interest charge of 9.58% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The Council has a legal obligation for claims for the period to 31st March 2011 amounting to £5.43m. There is a possibility of further claims for which at this stage the Council is not legally obligated, amounting to a further £2.8m. The Council has made provision for the £5.43m and on grounds of prudence has set aside a further £2.785m in a separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

Contingent Liabilities

These are possible liabilities as a result of a past event that will only materialise as a result of an uncertain future event. The Council's policy is to disclose as a contingent liability those that meet this criteria.

Contingent Assets

These are possible assets as a result of a past event that will only materialise as a result of an uncertain future event. The Council's policy is to disclose as a contingent asset those that meet this criteria.

xxii. Reserves

The Authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure from a usable reserve is incurred it is charged to the appropriate service in that year and forms part of the Surplus or Deficit in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge to council tax for the expenditure.

The Authority has a protocol for setting up and managing usable reserves. Under this protocol usable reserves require the approval of the Director of Corporate Resources and at the year end the balance and distribution of reserves is approved by Cabinet.

Unusable reserves are kept to manage accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

xxiii. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv. VAT

Income and expenditure are shown net of VAT. VAT is included in the Comprehensive Income and Expenditure account only where it is irrecoverable.

Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The presentation of these accounts is based on the Collection Fund Regulations alone and does not take into account the requirement of the Code to show as a liability the share of the fund balance relating to the Greater London Authority. Note 5 to this statement contains this information and thus provides the link between the Collection Fund accounts and the core statements.

The Collection Fund accounts for income from Council Tax and National Non-Domestic Rates on behalf of the Council and the Greater London Authority. The costs of administering collection are accounted for in the General Fund.

2009/10 £000		Notes	2010/11 £000
	Income		
	<u>Council Tax:</u>		
95,167	Income from Council Tax Payers	1	94,425
14,165	Transfer from General Fund Council Tax Benefit		14,485
109,332	Gross Council Tax Income		108,910
72,353	National Non-Domestic Rates	2	75,552
181,685	Total Income		184,462
	Expenditure		
	Precepts and Demands:		
81,961	The Council (London Borough of Merton)		82,163
22,625	Greater London Authority		23,004
104,586			105,167
72,059	National Non-Domestic Rates:	2	72,560
0	Payment to National Pool	2	2,699
294	Payment to GLA for BRS	2	293
	Allowance for Cost of Collection of National Non-Domestic Rates		
72,353			75,552
1,179	Provision for non-payment of Council Tax	3	1,287
178,118	Total Expenditure		182,006
(3,567)	(Surplus)/deficit for the year		(2,456)
	Appropriation Account		
(4,287)	(Surplus)/deficit brought forward		(5,999)
409	Payment to preceptors of previous year's surplus		646
1,446	Transfer to General Fund of Collection Fund surplus		2,341
(2,432)	Surplus after appropriation		(3,012)
(3,567)	Surplus for the year		(2,456)
(5,999)	Surplus as at 31st March	4	(5,468)

Accounting Policies

The transactions of the Collection Fund are wholly prescribed by legislation. The fund account is prepared on an accruals basis and complies with the appropriate regulations and the Code. The Collection Fund balances are not disclosed separately but are consolidated into the Council's Balance Sheet.

1. Council Tax

Council Tax income is derived from charges on the value of residential properties. There are eight separate valuation bands. These bands are based on valuations taken in April 1991 for this specific purpose.

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D Charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2010/11 is 74,250 (73,027 for 2009/10). The derivation of this is shown in the table below. The Council Tax charge for a Band D property was £1,412.92 in 2010/11 compared to 1,428.60 in 2009/10.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts and Exemptions		Ratio to Band D	Equivalent Number of Band D Properties	
	2009/10	2010/11	2009/10	2010/11		2009/10	2010/11
A adjust	2	2	2	2	5/9	1	1
A	1,042	1,042	890	899	6/9	593	599
B	7,860	7,966	6,706	6,747	7/9	5,216	5,248
C	20,658	20,887	18,261	18,496	8/9	16,232	16,440
D	26,912	27,160	24,450	24,713	9/9	24,450	24,713
E	12,970	12,976	11,927	11,953	11/9	14,578	14,610
F	4,852	4,882	4,468	4,500	13/9	6,454	6,500
G	3,889	3,890	3,618	3,629	15/9	6,030	6,048
H	1,512	1,520	1,414	1,429	18/9	2,828	2,858
Total						76,382	77,017
Allowance for non-collection						(3,361)	(2,773)
Defence properties						6	6
Council Tax Base						73,027	74,250

The Council's estimated tax base for 2010/11 was 74,250 and from this an income yield of £105.17m was expected (£104.59m in 2009/10). The actual tax base was equivalent to 77,081 and the income generated was £108.91m (£109.33m in 2009/10). This income is received from Council Taxpayers and through council tax benefit (in effect, by means of Government Grant). There is no transitional relief and the Council does not give discounts for prompt payments.

2. National Non-Domestic Rates (NNDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. Her Majesty's Revenue and Customs (HMRC) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. The proceeds are paid into a pool administered by the Government. The Government then redistributes the sums paid into the pool back to local authorities' General Funds. This is done on the basis of a fixed amount per head of population. The table below contains information relating to National Non-Domestic Rates.

	31 st March 2010	31 st March 2011
Non-domestic rateable value at year end	£170m	£207m
Number of Hereditaments	5,360	5,366
Uniform Business Rate (in the £)	48.5p	41.4p

The amounts included in the Collection Fund in respect of national non-domestic rates were as follows:

	2009/10 £000	2010/11 £000
Gross Rates payable (including net amounts for previous years)	82,063	83,418
Mandatory and discretionary reliefs	(9,015)	(8,744)
Transitional relief	123	0
Provision for bad and doubtful debts	(818)	(1,821)
Net Income	72,353	72,853
Cost of collection	(294)	(293)
Net contribution to NNDR pool	72,059	72,560

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities 'to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development.

LBM have a duty under the BRS Act to collect and enforce the Crossrail BRS on behalf of the GLA. All properties with a rateable value greater than £55,000 pay an additional 2p in the pound.

The amounts included in the Collection Fund in respect of National Business Rate Supplements were as follows:

	2009/10 £000	2010/11 £000
Gross Rates payable	0	2,913
Mandatory and discretionary relief's	0	(214)
Net contribution to GLA	72,059	2,699

3. Provision for Bad and Doubtful Debts

The movements in the provision for bad and doubtful debts were as follows:

	Balance at 1 st April 2010	Allowance for Impairment	Amounts charged against Allowance	Balance at 31 st March 2011
	£000	£000	£000	£000
Council Tax	6,300	1,287	1,087	6,500
Council Tax Community Charge	72	0	0	72
National Non-Domestic Rates	2,300	1,821	721	3,400
TOTAL	8,672	3,108	1,808	9,972

4. Collection Fund Surpluses and Deficits

There is an accumulated surplus of £5.5m on the Collection Fund (£6.0m in 2009/10). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

	2009/10	2010/11	Change in the Year
	£000	£000	£000
London Borough of Merton Council Tax surplus	4,701	4,272	(429)
Greater London Authority Council Tax surplus	1,298	1,196	(102)
Total	5,999	5,468	(531)

In the Council's Balance sheet, the Collection Fund balance contains the Council's share only. The share owed to the Greater London Authority is included in a net balance owed to the Greater London Authority. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

	Greater London Authority	London Borough of Merton	Total
	£000	£000	£000
Accumulated surplus as at 1 st April 2010	(1,298)	(4,701)	(5,999)
Paid to GLA in 2010/11	646	0	646
Transfer to General Fund in 2010/11	0	2,341	2,341
Surplus in 2010/11	(544)	(1,912)	(2,456)
Total	(1,196)	(4,272)	(5,468)

5. Link to Core Statements

This note provides the link between the Collection Fund accounts, which are based on the Collection Fund Regulations, and the relevant Core Statements, which are based on the Code.

Income and Expenditure	2009/10 £000	2010/11 £000
Demand on the Fund	81,961	82,163
Transfer of Surplus	1,446	2,341
Total included in I&E under Collection Fund Regulations	83,407	84,504
Adjustment of Collection Fund Surplus under 2010 Code (Reversed in the Movement in Reserves Statement)	1,360	(429)
Council Taxation Fund Income	84,767	84,075
Movement in Reserves Statement	2009/10 £000	2010/11 £000
Reversal of adjustment of Collection Fund Surplus under 2010 Code	(1,360)	429
Net charge to General Fund, which is based on statutory requirements	83,407	84,504

Balance Sheet	Collection Fund 2010/11 £000	Balance Sheet 2010/11 £000
Council Tax		
Arrears	8,180	6,391
Provision for Bad Debts	(6,500)	(5,078)
Receipts in Advance	(4,082)	(3,189)
GLA	(1,196)	(1,722)
Net	(3,598)	(3,598)
NNDR		
Arrears	5,591	0
Provision for Bad Debts	(3,400)	0
Receipts in Advance	(1,922)	0
Pool	1,161	1,430
Net	1,430	1,430

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

1. Housing Revenue Account Income and Expenditure Statement

2009/10 £000		Notes	2010/11 £000
	Expenditure		
8,785	Repairs and maintenance		211
6,767	Supervision and management		256
55	Rents, rates taxes and other charges		(6)
7,692	Negative HRA Subsidy payable	5	58
428,987	Depreciation and impairment of non-current assets	7,10 & 11	0
48	Debt management costs		0
(146)	Movement in the allowance for bad debts	6	351
452,188	Total Expenditure		870
	Income		
(25,223)	Dwelling rents	6	(71)
(583)	Non-dwelling rents	6	(9)
(3,641)	Charges for services and facilities	6	(141)
(29,447)	Total Income		(221)
422,741	Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		649
370	HRA services' share of Corporate and Democratic Core		0
423,111	Net Cost of HRA Services		649
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
1,602	Loss on sale of HRA non-current assets		0
(713)	Interest and investment income	7	(47)
(24,090)	Government Grant to Repay Debt	4	0
319	Pensions interest cost and expected return on pensions assets	13	0
400,229	Deficit for the year on HRA Services		602

2. Movement on the Housing Revenue Account Statement

2009/10 £000		Notes	2010/11 £000
(2,932)	Balance on the HRA at the end of the previous year		(4,656)
400,229	Deficit for the year on the HRA Income and Expenditure Statement	3	602
(401,933)	Adjustments between accounting basis and funding basis under statute		0
(1,704)	Net (increase) or decrease before transfers to or from reserves		602
(20)	Transfers from reserves		0
(1,724)	(Increase) or decrease in year on the HRA		602
(4,656)	Balance on the HRA at the end of the current year		(4,054)

3. Note to the Movement on the Housing Revenue Account Statement

2009/10 £000		Notes	2010/11 £000
	Adjustments between accounting basis and funding basis under regulations		
(801)	Reverse charges made for retirement benefits in accordance with IAS 19		0
956	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners		0
155	HRA share of contributions to the Pensions Reserve	13	0
(421,981)	Impairment of non-current assets		0
(9)	Write downs of Revenue Expenditure Funded Under Statute from Capital Resources		0
(1,602)	Loss on sale of HRA non-current assets		0
(2,586)	Transfer from Major Repairs Reserve	7	0
24,090	HRA debt redemption		0
(401,933)	Total Adjustments between accounting basis and funding basis under statute		0

4. Stock Transfer

On 22nd March 2010, the Council transferred its housing stock to Merton Priory Homes (MPH), which is part of Circle Anglia Limited, a Registered Social Landlord. Movement in 2010/11 reflects the residual transactions within the HRA.

The transfer has meant that an additional £8m per year is available to Merton Priory Homes for improvements to the housing stock. The Council will also receive 75% of the proceeds of future Right to Buy sales and 17.5% of the costs of works qualifying for a VAT shelter arrangement, which could benefit the Council by up to £39.258m over the life of the agreement. Further details are included in HRA note 12.

As part of the transfer agreement, the Council paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme in 2010/11. The works are close to completion subject to some final settlements. Due to health and safety and various design issues, the cost of the programme has increased by £0.24m.

5. Subsidy

The HRA Subsidy is based on a notional account representing the Government's assessment of what the Council should be collecting and spending.

2009/10 £000		2010/11 £000
3,807	Management Allowance	0
7,152	Maintenance Allowance	0
4,420	Major Repairs Allowance (MRA)	0
1,542	Charges for Capital	0
(24,612)	Guideline Rent Income	0
(6)	Interest on Receipts	(2)
5	Previous Year's Housing Subsidy Adjustment	(56)
(7,692)	HRA Subsidy payable to CLG	(58)

6. Tenants' and Leaseholders Rent and Service Charges Arrears and Bad Debt Provision

The Council continues to be responsible for former tenants' arrears, which did not transfer to Merton Priory Homes. After write-offs of £0.06m, gross arrears reduced from £0.34m at 31st March 2010 to £0.28m at 31st March 2011. Credit balances of £0.08m (£0.9m at 31 March 2010), representing amounts that have been overpaid by untraceable former tenants, were transferred to the HRA.

During the year 2010/11, final charges to leaseholders for services supplied in 2009/10 were calculated and used to replace the estimated charges. This gave rise to additional income of £0.14m and after allowing for repayments of £0.02m, increased total arrears to £0.48m (£0.36m in 2009/10).

The provision for bad and doubtful debts was increased by £0.35m, including £0.03m in respect of former tenants and £0.32m in respect of leaseholders, such that the total provision of £0.76m matches 100% of tenant and leaseholder arrears.

2009/10 £000	Arrears and overpayments	2010/11 £000
343	Former Tenants' rent and service charges arrears	282
(86)	Former Tenants' rent and service charges overpayments	0
359	Leaseholders' works and service charge arrears	479
616	Total Tenants' and Leaseholders' Arrears	761
(469)	Provision for bad and doubtful debts	(761)

2009/10 £000	Bad Debt Provision	2010/11 £000
(955)	Opening balance	(469)
146	Provision made in the year	(351)
340	Amounts written off	59
(469)	Closing balance	(761)

7. Capital Charges

Interest and investment income of £0.05m was received in 2010/11. Net capital charges were £3.75m in 2009/10 as detailed below.

2009/10 £000		2010/11 £000
	Service Expenditure	
428,987	Depreciation and Impairment	0
48	Debt Management Expenses	0
	Operating Expenditure and Income	
(117)	Interest on Notional Cash Balance	(45)
(594)	Interest on Mid Year Capital Financing Requirement	0
(2)	Mortgage Interest	(2)
	Appropriations	
(2,586)	Transfer from Major Repairs Reserve	0
(421,981)	Transfer from Capital Adjustment Account	0
3,755	Total Capital Charges	(47)

No assets were held within the HRA during 2010/11 and so depreciation and impairment charges, which show the consumption of assets in the year, were nil (£429.0m in 2009/10).

Following the stock transfer, the Government set the value of the Mid-Year Capital Financing Requirement in 2010/11 to zero and therefore no interest was credited to the HRA under this heading.

As there were no maintained assets in the year, no transactions were posted to the Major Repairs Reserve and Capital Adjustment Account.

8. Housing Stock

The Council transferred 6,326 dwellings to Merton Priory Homes in March 2010 and did not own any rented Social Housing units during 2010/11 (Average 6,168 in 2009/10). There was no stock at the year-end.

9. Valuations

The total balance sheet value (as at 1st April in the year) of HRA assets is summarised below.

2009/10 £000		2010/11 £000
	Operational Assets:	
420,368	Dwellings	0
2,853	Garages	0
423,221	Sub total	0
241	Non-Operational Assets	0
423,462	Total HRA Balance Sheet Value at 1st April	0

As at 1st April 2010, the Vacant Possession Value of the HRA dwellings was nil (£1,136.13m in 2009/10) and the balance sheet value of those dwellings was nil (£420.37m in 2009/10). The difference between the Vacant Possession Value and the balance sheet value, which shows the economic cost to government of providing council housing at less than open market value, was nil as at 1st April 2010 (£715.76m in 2009/10).

The Council has not held any dwellings, garages or non-operational assets within the HRA since 22 March 2010 and so the total balance sheet value of HRA assets was nil as at 31st March 2010 and 31st March 2011.

10. Depreciation and Impairment of Fixed Assets

There were no depreciation or impairment charges for HRA assets in 2010/11.

2009/10 £000		2010/11 £000
	Operational Assets:	
428,746	Dwellings	0
241	Non Operational Assets	0
428,987	Depreciation and impairment charged to HRA	0

Impairment of £414.5m, relating to the transfer of the housing stock to Merton Priory Homes was included in the previous year's figures (2009/10).

11. Major Repairs Reserve

The table below shows the movement on the Major Repairs Reserve. The balance on the reserve as at 31st March 2010 was nil and there has been no movement in 2010/11.

2009/10 £000		2010/11 £000
	Major Repairs Reserve	
(383)	Opening Balance at 1 st April	0
(7,006)	HRA depreciation	0
4,803	HRA Capital expenditure financed by Major Repairs Allowance	0
2,586	Transfer from Major Repairs Reserve to HRA	0
0	Major Repairs Reserve at 31st March	0

12. HRA Capital Expenditure

HRA capital expenditure in 2010/11 was nil (£7.5m in 2009/10). The capital expenditure in the previous year (2009/10) was financed from various sources as follows:

2009/10 £000		2010/11 £000
7,514	Total HRA capital expenditure – Council Dwellings	0
	Financed by:	
2,711	Increase in underlying need to borrow	0
4,803	Major Repairs Reserve	0
7,514	Total Financing	0

HRA capital receipts of £1.0m were achieved in 2010/11 in respect of right to buy sales and a further £0.47m as a result of VAT sharing agreements.

2009/10 £000		2010/11 £000
63	Capital receipts from VAT sharing agreements	471
1,042	Capital receipts through sales of HRA property including preserved Right to Buy sales	1011
0	Less administration costs	(11)
1,105	Total HRA Capital Receipts	1,471

2009/10 £000		2010/11 £000
656	Capital Receipts payable to CLG	67
449	Retained Capital Receipts	1,404
1,105	Total HRA Capital Receipts	1,471

13. Pensions Reserve

The net effect of the IAS19 transactions on the HRA is zero as summarised below.

2009/10 £000		2010/11 £000
(956)	Reversal of employer contribution	0
482	Current service cost	0
(474)	Fall in cost of HRA services	0
319	Interest on Pension Scheme Liabilities less interest earned on Pension Scheme assets	0
(155)	Total of IAS19 effect on Net HRA Operating Expenditure	0
	Transfer from HRA to Pensions Reserve	
956	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	0
(801)	Net charges made for retirement benefits in accordance with IAS 19	0
155	Total Transfer from HRA to Pensions Reserve	0
0	Net Effect of IAS 19 on HRA	0

14. HRA Balances

The HRA balances as at 31st March 2011 total £4.054m (£4.656m as at 31st March 2010). In accordance with the consent given by the Secretary of State on 29th March 2011, the HRA was closed on 31st March 2011 and the remaining HRA balance of £4.054m will be transferred to General Fund Balances in 2011/12.

Pension Fund Accounts

Fund Account	Notes	2009/10 £000	2010/11 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	4	19,650	21,097
Transfers in	6	4,929	2,648
Total Income		24,579	23,745
Benefits	5	19,244	18,545
Payments to and on account of leavers	6	6,942	3,551
Administrative Expenses	8.2	265	335
Total Expenditure		26,451	22,431
Net additions (withdrawals) from dealing with members	8.3	(1,872)	1,313
Returns on Investments			
Investment and other income	9	8,283	9,214
Movement in Market Value of investments			
- Unrealised	11	88,922	14,917
- Realised		348	4,169
Taxes on Income	2.8 & 9	(630)	(241)
Investment Management Expenses	8.4	(591)	(361)
Derivatives (Futures) Variance Margins	19.3	349	443
Net Returns on Investments		96,681	28,141
Net increase (decrease) in the fund during the year	11	94,809	29,454
Add: Opening net assets of the scheme		260,760	355,569
Closing net assets of the scheme		355,569	385,023

Net Assets Statement

The Net Assets Statement shows how the assets of the Pension Fund are invested.

1st April 2009	31 st March 2010		Note	As at 31 st March 2011		As at 31 st March 2011
£000	£000			Direct Investment £000	Pooled £000	£000
		Investment Assets				
		Fixed Interest Securities:		0	26,085	26,085
26,776	23,825	Public Sector: UK		0	23,053	23,053
21,069	23,389	Overseas		0	0	0
100	0	Other				
		Equity Investments:				
87,798	149,837	UK		77,546	88,232	165,778
14,984	27,230	Other European		11,141	20,060	31,201
19,823	34,611	US		0	37,598	37,598
11,430	18,520	Japanese		0	17,488	17,488
7,736	10,381	Other Overseas		0	10,441	10,441
8,438	14,261	Developing Markets		0	13,887	13,887
		Index Linked Securities: UK				
40,124	42,399	Public Sector		0	45,097	45,097
		Property				
8,664	9,396	Property Managed Funds		0	9,883	9,883
		Derivative Contracts				
1,010	1,234	FTSE future contracts		0	1,942	1,942
15	19	Development Capital		0	0	0
3,340	3,149	Cash Deposits		1,612	2,763	4,375
658	667	Other Investment Balances		405	302	764
251,965	358,918	External investments at market value		90,704	296,888	387,592
		Investment Liabilities				
(1,010)	(1,227)	Derivative cash liability		0	(1,866)	(1,866)
250,955	357,691	Total Investments at Market Value		90,704	295,022	385,726
9,857	1,244	Current Assets				1,123
(52)	(3,366)	Current Liabilities				(1,826)
260,760	355,569	Net Assets				385,023

The financial statements summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statement by the consulting actuary in the annual report and these accounts should be read in conjunction with that.

Notes to the Pension Fund Accounts

1. Description of Fund

The Local Government Pension Scheme Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. The Admitted and Scheduled Bodies that contribute to the London Borough of Merton Pension Fund are:

Admitted bodies	Scheduled Bodies
<ul style="list-style-type: none">• Moat Housing Association• Greenwich Leisure• Central and Cecil Housing Trust• Connaught PLC• Merton Priory Homes• Environmental Waste Control	<ul style="list-style-type: none">• Wimbledon and Putney Commons Conservators• Harris Academy• St. Mark's Academy

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments.

A Pension Fund Advisory Panel oversees and advises on investment of the Fund. This panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The Authority takes independent professional advice on investment policy and strategy.

2. Accounting Policies

2.1 Accounts

The accounting policies are based upon those in the Pensions SORP, "The Financial Reports of Pensions Schemes / A Statement of Recommended Practice, 2007". The 2010 Local Authority Code incorporates the requirements of the Pensions SORP with regard to accounting, presentation and disclosure. No departures from the 2007 SORP have been made. The Fund Account is operated on an accruals basis except where otherwise stated. No significant estimation techniques have been used in these accounts.

2.2 Investments

The Pensions SORP requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then fund managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value. Based upon these principles, investments are valued as follows :-

- Quoted securities are valued at current market “bid” price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices.

The Pension Fund investments also include a cash balance or overdraft, which currently forms part of the balance on the Council's general bank account. This balance includes sums set aside from deficit funding which have not yet been transferred to external fund managers and a balance arising from other cash flows. This balance earns LIBOR, the rate that it would earn if the cash balance was held in a separate bank account.

2.3 Investment Income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

Foreign Currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31st March 2011.

Contributions

Employees' contributions are accounted for at the time equivalent to when they are deducted from pay.

Employer normal contributions are accounted for in the period in which they are due under a schedule of contributions. Employer deficit funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit funding contributions are made on the advice of the authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently fifteen years).

Refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

Benefits

Benefits are accounted for on the basis of the date of leaving or the date of decision on the type of benefit, if later.

Transfers

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These have been included on the basis of when payments were made or receipts received. As at 31st March 2011, there were no outstanding obligations for transfer payments or amounts receivable for 2010/11, other than those specified under Contingent Liabilities (Note 17).

Taxation

Withholding tax and any other tax deducted on trading activities is shown as a tax charge and the recovery of this tax is not anticipated by the raising of a debtor but is credited to other income only when received. By virtue of Merton Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

Going Concern

The Pension Fund Accounts have been prepared on a going concern basis.

3. Contributors and Beneficiaries

	2009/10 £000	2010/11 £000
Number of Contributors	3,168	3,147
Pensioners	3,040	3,132
Deferred Pensioners	2,885	2,973
Employers' contribution rates as included in the certificate of adequacy of the contribution rate:	%	%
Scheduled bodies:		
• LB Merton	14.0	14.0
• Wimbledon and Putney Commons Conservators	25.0	25.0
• Merton College	19.0	N/A
• Harris Academy	12.0	12.5
• St. Marks Academy	13.0	14.0
Admitted bodies:		
• Moat Housing Association	19.0	19.0
• Greenwich Leisure	13.0	14.5
• Central and Cecil Housing Trust	23.0	23.0
• Connaught PLC	19.0	19.0
• Environmental Waste Control	16.0	16.0
Employees' contribution rates:		
• Manual workers – protected	5.50	6.50
• Other		
Since April 2008, member's contributions have been set by reference to the whole time pay for their post and fall in the range 5.5% to 7.5% except for protected manual workers		

4. Contributions Receivable

	2009/10 £000	2010/11 £000
Employers		
London Borough of Merton		
• Normal	9,855	8,861
• Deficit Funding Contributions (Additional)	4,105	4,661
• Scheduled Bodies	461	316
• Admitted Bodies	270	2,583
	14,691	16,421
Members		
London Borough of Merton		
• Normal	4,737	4,260
• Scheduled Bodies	174	127
• Admitted Bodies	48	288
	4,959	4,676
Total	19,650	21,097

There has been a significant increase in admitted bodies contributions receivable because Merton Priory Homes joined the scheme 22nd March 2010.

5. Benefits Payable

	2009/10 £000	2010/11 £000
Pensions Payable		
London Borough of Merton	13,118	14,116
Scheduled Bodies	384	558
Admitted Bodies	125	157
	13,627	14,831
Lump Sum Benefits Payable		
Retirement Benefits		
London Borough of Merton	5,430	3,231
Scheduled Bodies	3	3
Death Benefits		
London Borough of Merton	184	480
	5,617	3,714
Total	19,244	18,545

6. Payments to and on account of leavers and transfers in

	2009/10 £000	2010/11 £000
Payments to and on account of leavers		
Transfer value received	4,929	2,648
Transfer value payable	6,937	3,547
Refunds of Contribution	5	5
State Scheme Premiums	0	(1)
Total Transfer value payable	6,942	3,551
Net Outflow	(2,013)	(903)

7. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 5(2) c of the Pension Scheme (Management and Investment of Funds) Regulations 1998, AVCs are not included in the pension fund accounts but are paid over to and invested by specialist AVC providers, Prudential PLC and Bank of Ireland independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2010/11 to AVC schemes outside the Authority's responsibility was £0.15m (£0.2m at 31st March 2010). The external providers have reported that at 31st March 2011 the total value of accumulated AVCs is £1.14m (£1.08m at 31st March 2010).

8. Revenue Transactions

8.1 Dealing with Members

Income from employer and employee contributions in 2010/11 is £21.1m and this exceeds expenditure on pensions and benefits of £18.5m, leaving a net position of a £2.6m inflow. This compares with a £0.4m inflow in 2009/10. Contributions increased

as a consequence of Merton Priory Homes joining the scheme as an Admitted body on 22nd March 2010.

This underlying surplus fluctuates with transfer values paid and received. There was a net outflow of transfer values of £0.9m in 2010/11 compared to a net outflow of £2.0m in 2009/10.

Administration Expenses

	2009/10 £000	2010/11 £000
Salaries (recharge from General Fund)	164	195
Running Costs	101	140
	265	335

8.3 Net Revenue Income

Net revenue income finances current benefits in payment. The fund's revenue income exceeds the amount required to finance pensions/benefits currently payable.

	2009/10 £000	2010/11 £000
Dealings with members	(1,872)	1,313
Investment income	7,653	8,973
Less: Investment management expenses	(591)	(361)
Total net income	5,190	9,925

8.4 Investment Management expenses

	2009/10 £000	2010/11 £000
Salaries (Recharge from General Fund)	101	120
Fund manager expenses including investment transaction costs	490	241
Total	591	361

9. Investment and other income

Source of Investment Income	%	Investment Income 2009/10 £000	%	Investment Income 2010/11 £000
Income from Fixed Interest Securities				
Bonds Pooled	37.27	2,852	43.69	4,026
Dividends from Equity Investments				
Equities Direct	28.13	2,480	29.36	2,705
Pooled	25.39	2,151	20.19	1,860
Property Pooled	3.66	375	2.91	268
Interest on Internal balance	0.14	11	(0.18)	(17)
Other income (including Tax recovered)	5.41	414	4.03	372
Investment and other income (Gross)		8,283		9,214
Taxes on Income		(630)		(241)
Investment and other income (Net)	100	7,653	100	8,973

10. Value and realisation of investments

The valuation of investments at year-end incorporates the value of purchases, gains/losses realised on the sale of investments, and changes in the assessed market value of investments retained in the portfolio.

The majority of investments are quoted and in compliance with our Statement of Investment Principles, easily realised in normal circumstances. Property Unit Trusts may be illiquid and realisation protracted but the allocation to Property investment is not more than 5% of the total investment portfolio and it is recognised as being a longer-term investment vehicle.

There is no investment holding which is more than 5% of the total net assets of the fund. The largest holding is in Vodafone at 2.1243%.

11. Reconciliation of the Movement in Net Assets of the Fund

The increase (decrease) in the market value of the fund is made up as follows:

	31 st March 2010	Purchases at Cost	Sales at Cost	Change in Market Value	Change in cash and debtors and other adjusts	31 st March 2011	Movement
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest	47,214	3,676	(5,146)	3,394		49,138	
Equities	254,840	23,937	(13,569)	11,185		276,393	
Index Linked	42,399	3,676	(1,600)	622		45,097	
Property	9,396	152	0	335		9,883	
Derivatives							
- Future Contracts	1,234	0	0	708		1,942	
- Cash Liability	(1,227)	-7,491	6,852	0		(1,866)	
Development	19	4	(19)	(4)		0	
Capital							
Fund Mgrs Cash	3,149	0	0	0	1,226	4,375	
Other Inv balances	667	0	0	0	97	764	
Total Investments at Market Value	357,691	23,954	(13,482)	16,240	1,323	385,726	28,035
Net Current Assets	(2,122)					(703)	1,419
	355,569						29,454
Reflected in Fund Account as follows:-							
Scheme revenue (expenditure)(Note 8.3)							1,313
Investment Income (net) (Note 9)							8,973
Management Expenses (Note 8.4)							(361)
Profit from sale of investments							4,169
Variance margins							443
Unrealised market gains 2010/11							14,917
							29,454

Note: Unrealised market gains = change in MV (16,240) less cash/other (1,323)

12. Net Current Assets

Debtors	2009/10 £000	2010/11 £000
Contributions due from employer	1,244	1,123
Cash in hand	0	0
Current Assets	1,244	1,123

Creditors	2009/10 £000	2010/11 £000
Other current liabilities	(198)	0
Cash overdrawn	(3,168)	(1,826)
Current Liabilities	(3,366)	(1,826)

The current liabilities are in respect of management expenses.

13. Investment Arrangements

13.1 Fund Management Arrangements

The management of Pension Fund investments is delegated to external investment managers who have the following sums under investment, based upon market value. The accrued dividends are included under the relevant fund manager.

	Aberdeen		UBS Global		REEF Property		NOVA		Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
2009/10										
Direct	42,077	57	35,128	47	0	0	0	0	77,205	100
Pooled	116,632	42	157,429	56	6,399	2	19	0	280,479	100
Market	158,709	45	192,557	54	6,399	2	19	0	357,684	100
2010/11										
Direct	77,771	67	38,292	33	0	0	0	0	116,063	100
Pooled	94,236	35	168,687	63	6,740	2	0	0	269,663	100
Market	172,007	45	206,979	54	6,740	2	0	0	385,726	100
%change	8.4%		7.5%		5.3%		100%		7.8%	

13.2. Fund Management Mandates

The Council as the Administering Body delegates the responsibility of fund management to several fund managers whose responsibility is to invest in accordance with specific mandates. The Fund Managers include: -

Fund Manager	Details
Aberdeen Asset Management	Actively manage equity and bond investments on a discretionary basis
UBS Global Asset Management	Manage an active equity fund, a passive (index tracker) equity fund, and property unit trust investments
REEF	Manage property investment
Nova Capital Management	Manage a portfolio of development capital investments via pooled funds
Investment Assets in Life Vehicles	The Authority's investment managers undertake some investment via pooled vehicles operated as unitised insurance (Life) vehicles. This is for investment efficiency in particular markets
In- house management – Cash Deposits	The Authority manages funds accruing from Pension Scheme cashflow as deposit investments, pending transfer to external management. The return on the deposit amount is geared to London inter-bank rates (LIBOR)

14. Stock Lending

There were no stock lending arrangements in place during the financial year ended 31st March 2011.

15. Statement of Investment Principles

The Statement of Investment Principles (SIP) contains the Authority's policy for investment, and the conditions within which investment activities are to be carried out. The SIP also reports the extent to which the Authority's principles comply with a prescribed standard of best practice, (the Myners' principles). Investment managers are required to adhere to the principles set out in the SIP.

16. Related Parties

Related parties to the pension fund include: -

- i) **The Pension Fund's Investment Managers** (see 13.2) who work under contract arrangements.
- ii) **The London Borough of Merton**, which currently holds cash balances on behalf of the pension fund pending transfer to external fund managers. (This is a function of Pension Scheme procedure and not part of a loan arrangement initiated by the London Borough of Merton and the Pension Fund).
- iii) **The Admitted and Scheduled bodies** (See note 1) who make employer contributions to the fund.
- iv) **Local authority members and senior management officers** who sit on the Pension Fund Advisory Panel.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services. The latter were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.315 (£0.264m in 2009/10).

Of the serving Councillor members on the Pension Fund Advisory Panel only one is a contributor to the Pension Fund. The number of Councillors in the pension fund as at 31st March 2011 was as follows:

Status	2009/10	2010/11
Contributors	22	18
Deferred	6	10
Pensioners	2	3

17. Contingent Liabilities

The London Borough of Merton Pension Fund will in due course pay sums relating to three major transfers of pension liabilities.

There are contingent liabilities in respect of Wimbledon School of Art £1m and the transfer of the Council's HR function to the LB Sutton (£4m) where the transfers are contingent upon the precise date and terms of transfers being agreed.

The largest contingent liability is likely to be in respect of the South Thames College (formerly Merton College) bulk transfer. This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have yet been agreed between the parties.

18. Contingent Assets

Connaught PLC went into administration in September 2010. This will have no impact on the 2010/11 assets and liabilities of the Pension Fund. However, Connaught is an Admitted Body within the scheme and has a £0.07m deficit within the total fund deficit. Merton is in the process of claiming back this amount from the Connaught Bond taken out with the Natwest Bank.

19. Actuarial Valuation

19.1 Actuarial Position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

- (i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
- (ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

19.2 Actuarial Assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2010. This gave an assessment of the value of the fund as at 31st March 2010. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31st March 2010 was £343.5m, whilst the liabilities accrued in respect of pensionable service were £410.7m. The assessed actuarial value of £343.5m was different to the market value of the assets at 31st March 2010 (shown in Note 18.5) because the Actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

Table of Assumptions used in Actuarial Valuations

Financial Assumptions	2007		2010	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Equities	7.6%	4.3%	7.4%	3.9%
Gilts	4.7%	1.3%	4.5%	1.0%
Bonds & Property	5.4%	2.0%	5.6%	2.1%
Index Linked Gilt yields	3.4%			
Equity Risk Premium	3.0%			
Equity Return	7.6%			
Discount Rate	6.9%	3.5%	6.7%	3.2%
Pay Increases	4.9%	1.5%	5.0%	1.5%
Price Inflation	3.4%		3.5%	
Pension Increase	3.4%		3.0%	(0.5%)

19.3 Funding Policy

Regulations require the Actuary to set the employer's contribution rate for the Authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover any deficiency in the Fund over the next fifteen years, and this is consistent with the funding strategy.

19.4 Funding Position

The overall funding level declined from 90.5% in 2007 to 84% in 2010. Whilst investment returns were less than assumed this was slightly offset by CPI changes and other assumption changes.

	2007 Valuation	2010 Valuation
Funding Level %	90.5%	84.0%
Funding (Deficit) £m	(33.5)	(67.2)

The funding deficiency of £67.2 million at the time of the 2010 valuation was equivalent to 16% of the accrued liabilities, compared to 10% as at the time of the 2007 valuation.

Reconciliation of Past Service Position

	Funding Position £m	
Deficit at 2007 Valuation	(34)	
New Liabilities	(50)	
Contributions Paid		59
Interest on Deficit	(6)	
Asset Gain/Loss	(71)	
Liability Gain/Loss	(28)	
Experience		3
Change in Assumptions/CPI		59
Deficit at 2010 Valuation	(67)	

As we can see, overall the deficit increased during the intervaluation period.

Past Service Funding Position

	31 March 2010 £(000)	
Smoothed Asset Value		343,541
Past Service Liabilities		
Active Members	139,683	
Deferred Pensioners	59,740	
Pensioners	211,227	
Value of Scheme Liabilities		410,650
Surplus (Deficit)		(67,109)
Funding Level		84%
Employer Contribution Rates		% of Payroll
Future Service Contribution Rate		14.1%
Deficit Recovery (15 years)		7.3%
Total Contribution Rate		21.4%

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

19.5 Asset valuation at actuarial valuation

The table below provides information on opening and closing assets at the date of the latest valuation report.

Assets at valuation	31 March 2007		31 March 2010		Change	Change	Change
	£000	%	£000	%	£000	(value) %	(allocation) %
UK Equities	129,625	41	149,856	42	20,231	16	1
Overseas Equities	98,948	31	105,003	29	6,055	6	(1)
UK Gilts	44,206	14	66,224	19	22,018	50	5
Overseas Bonds	13,537	4	23,389	7	9,852	73	3
Property	15,044	5	9,396	3	(5,648)	(38)	(2)
Cash	13,989	5	1,726	0	(12,263)	(88)	(5)
Net Current Assets	1,326	0	0	0	(1,326)	(100)	(1)
Total	316,675	100	355,594	100	38,919	(81)	

The table below shows the actuarial present value of promised retirement benefits – Balance Sheet Amounts for the Current and Previous Periods.

Amounts for the current and previous four periods	Year to Mar 2011	Year to Mar 2010	Year to Mar 2009	Year to Mar 2008	Year to Mar 2007
	£000's	£000's	£000's	£000's	£000's
Defined Benefit Obligation	(454,377)	(558,896)	(357,499)	(383,722)	(416,715)
Scheme Assets	351,387	316,497	233,837	288,915	297,161
Surplus (Deficit)	(102,990)	(242,399)	(123,662)	(94,807)	(119,554)
Experience adjustments on Scheme liabilities	37,092	(15,844)	—	(1,866)	—
Percentage of liabilities	8.2%	-2.8%	0.0%	0.5%	0.0%
Experience adjustments on Scheme assets	12,996	73,831	(78,432)	(32,176)	(5,905)
Percentage of assets	3.7%	23.3%	-33.5%	-11.1%	-2.0%
Cumulative Actuarial Gains and Losses	(2,299)	(104,176)	11,261	34,639	8,920

20 Derivative Instruments

20.1 Details

The derivative instruments' which are used by the fund, are FTSE future contracts which have been applied to the active and passive sub funds managed by UBS Asset Management. The futures contracts have not been used for speculative purposes but rather to facilitate strategic change in the effective composition of the funds more efficiently than could be obtained through sale or purchase of underlying investments at a point in time. At 31st March 2011, the value of FTSE futures amounted to less than 0.8% of all equity investment and less than 0.1% of the UBS equity funds.

20.2 Derivative contracts - Exposure to FTSE futures

The following table reflects the fund's exposure to future contracts

Fund Manager	Fund Type	2009/10		2010/11	
		Book Cost £000	Market Value £000	Book Cost £000	Market Value £000
UBS	Passive	1,227	1,234	1,896	1,942
	Total	1,227	1,234	1,896	1,942

20.3 Derivative contracts- variation margin payments and receipts

Derivative contracts and their associated variance margin payments incurred and settled in 2010/11 have been charged to the 2010/11 Pension Fund Account. (Variation margins are paid by investment managers on a daily basis in order to reduce carried exposure on futures transactions, which are intended to limit risk in respect of changes in the FTSE index.)

The valuation of these futures transactions and the associated margin payments is not set by the investment manager, but derived from prices set by independent participants in the market, with variance margins calculated against published FTSE indices.

Fund Manager	2009/10 Variation Margins £000	2010/11 Variation Margins £000
UBS	349	443
Total	349	443

21. Post Balance Sheet Events

From October 2011 there will be a shared legal service for the London Borough of Richmond and the London Borough of Merton. Staff will be transferring from Richmond to Merton and there will be a bulk transfer of pension liabilities. An estimate of the financial effect of this transfer cannot be made at this point. This is a non-adjusting event and will not affect the 2010/11 accounts.

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- To approve the Statement of Accounts.

1.1. The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

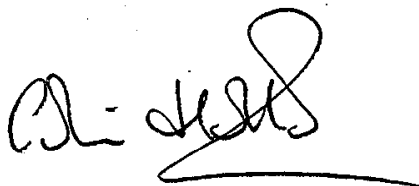
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

1.2 Certification of Responsible Finance Officer

I hereby certify that the statement of accounts on pages 7 to 126 give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2011.



C Holland

Director of Corporate Services

30 June 2011

Further information about the accounts is available from:

Director of Corporate Services
8th Floor

Merton Civic Centre

London Road

MORDEN

Surrey

SM4 5DX

Or alternatively, please ask for Stephen Bowsher on 020 8545 3531.

Glossary

ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

ACCOUNTING CODES OF PRACTICE

These are designed to support consistent standards of financial accounting in local authorities. There are two accounting codes :-

The Code of Practice on Local Authority Accounting supports consistent financial reporting at the level of the formal statements of accounts.

The Service Reporting Code of Practice (SerCOP) supports consistent financial reporting between local authorities below the level of the formal statement of accounts. In particular the SerCOP is designed to support consistency and comparability in reporting the cost of individual services and activities.

The SORP requires that the analysis of services in the Consolidated Revenue Account should follow that prescribed by the SerCOP.

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid. This concept is reflected in the accounts by the inclusion of debtors and creditors.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- a. Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. The actuarial assumptions have changed.

APPROPRIATIONS

The assignment of revenue balances for specified purposes.

ASSETS

These are rights or access to future economic benefits controlled by an entity as a result of past transactions or events.

BALANCES

Balances are maintained to meet expenditure pending the receipt of income and to provide a cushion against expenditure being higher or income lower than expected.

Contributions to balances can be either a planned contribution from the revenue budget or a transfer of any revenue surplus at the year end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

BUDGET

Statement of the spending plans for the year.

CAPITAL ADJUSTMENT ACCOUNT (CAA)

This reserve is debited with the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets and with the historical cost of deferred charges. It is credited with resources set aside to finance capital expenditure. Where there is a credit balance, capital finance is being set-aside at a faster rate than resources have been consumed. Where there is a debit balance, fixed assets are being consumed in advance of their being financed.

CAPITAL CHARGES

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

CAPITAL RECEIPTS DEFERRED

Amounts receivable in the future from mortgages granted on the sale of Council houses.

CAPITAL RECEIPTS

Proceeds from the sale of fixed assets and repayments of capital grants and loans. These are divided into reserved and usable parts.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

The Institute produces standards and codes of practice that must be followed in preparing the Council's financial statements.

CLG

This is the Government department for Communities and Local Government. This was formerly called the Office of the Deputy Prime Minister (ODPM).

COLLECTION FUND

This is a statutory 'ring fenced' account. It records income and expenditure on Council Tax, Non Domestic Rates, payments to the precepting authorities and transfer to the Council's General Fund.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, which have no determinable useful life and which may have restrictions on their disposal. Examples include parks and historic buildings.

COMPREHENSIVE SPENDING REVIEW (CSR)

The CSR is a governmental process carried out by HM Treasury which sets out fixed three-year departmental expenditure limits and through public sector service agreements defines key service improvements.

CONTINGENT ASSETS AND LIABILITIES

A contingent asset is a possible asset, which may arise in the future if certain events take place. A contingent liability is a possible loss or charge, which may arise in the future if certain events take place. In both cases, these events may not be wholly within the control of the Authority.

Contingent liabilities are not recognised in the accounts but should be disclosed by way of a note if there is a possible obligation which may require payment or a transfer of economic benefits.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. It has two elements - corporate management and democratic representation and management. The activities within the corporate and democratic core are in addition to those which would be carried out by a series of independent, single purpose bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

CORPORATE GOVERNANCE

Corporate Governance is the system by which local authorities direct and control their functions and communicate to their communities.

COUNCIL TAX

This is the main source of local taxation to local authorities. It is levied on households within the authority's area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the authority's own General Fund.

CREDIT APPROVAL

The permission to borrow given to each local authority annually by the Secretary of State. Local authorities can obtain supplementary credit approvals during the year for particular projects.

CREDITORS

Money owed by the Council, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Council. Creditors are an example of the concept of accruals.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

CURTAILMENT COSTS

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example, as a restructuring of operations
- b. termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEBTORS

Money that is due to the Council but which has not yet been received. Debtors are an example of the concept of accruals.

DEFERRED CONSIDERATION

This is the value of buildings transferred to NewSchools under the PFI contract and will be amortised over the life of the contract.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFRA

DEFRA (The Department for the Environment, Fisheries and Rural Affairs)

DEPRECIATION

Depreciation is a charge to the revenue account to reflect the reduction in the useful economic life of a fixed asset. The reduction in the value of a fixed asset in the balance sheets is in line with the expected useful life.

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EMOLUMENTS

All sums paid to or receivable by an employee, and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

EXCEPTIONAL ITEMS

Material items, which derive from events or transactions that fall within the ordinary activities of the authority, but which are not expected to recur frequently or regularly.

Exceptional items should be shown as part of the Net Cost of Services to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary to give a fair representation of the accounts.

FAIR VALUE

The fair value is the value of an asset or liability in an arms length transaction between unrelated, willing and knowledgeable parties. In practice this is often taken as market value but there are acceptable approximations, which can be used when there is no market for the asset or liability. In relation to assets the recorded value would be less, where applicable, any grants receivable towards the purchase or use.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be met from the General Fund. The account is designed to hold the difference between the book value and fair value. It is not used at present because the sums involved are not significant.

FINANCE LEASE

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more), of the fair value of the leased asset.

FINANCIAL YEAR

The financial year runs from the 1st April to the following 31st March.

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. In practice, this covers both assets and liabilities and includes bank deposits, investments, debtors, loans and advances, debt premiums, creditors and borrowings.

FIXED ASSETS

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year. These can be tangible or intangible.

FRS

Financial reporting standards: these replace statements of standard accounting practice (SSAP) and generally go into much more depth. Adherence to both FRSs and where appropriate SSAPs, are essential to demonstrate compliance to the SORP which is fully convergent with UK GAAP.

FTSE 100

This is the index of the top 100 UK listed companies by market capitalisation.

GENERAL FUND

The main fund of the Council, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

GOVERNMENT GRANTS

Financial assistance by government and other bodies, in the form of cash transfers to an authority in return for compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE

The total expenditure of a fund or account.

HOUSING REVENUE ACCOUNT (HRA)

This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the Council's housing stock. The government defines the items of income and expenditure that must be included in the account. This account is ring-fenced under the Local Government and Housing Act 1989.

IFRS

International Financial Reporting Standards: these are the standards that both the SORP and the UK GAAP are converging towards and local authorities will have to be fully compliant for 2010/11 financial year.

IMPAIRMENT

The loss of value in a fixed asset arising from physical damage, deterioration in the quality of service provided by the asset or from a general fall in prices.

INCOME AND EXPENDITURE ACCOUNT

Accounts which show all money receivable or payable by the Council in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS

Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS

Intangible assets are defined in FRS10 as 'non financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody and legal rights'. As such, they may provide the authority with access to future economic benefits which are controlled by the local authority.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)

The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENTS (NON-PENSION FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund that do not meet the above criteria should be classified as current assets.

JOINT ARRANGEMENT WHICH IS NOT AN ENTITY (JANE)

A JANE is a contractual arrangement under which participants engage in joint activities but which is not an entity.

KLOE – KEY LINES OF ENQUIRY

These are series of detailed questions asked during the CPA assessment, which helps form the judgement on how well the Council has performed.

LEASING

This facility is a means to obtain the use of vehicles, plant and computer equipment without actually owning these items.

LEVY

An amount levied by a local authority or other statutory body which is paid by the Council.

LIABILITIES

An entity's obligations to transfer economic benefits as a result of past transactions or events.

LOCAL AREA AGREEMENT (LAA)

A local area agreement is a set of priorities for a local area agreed between central government and a local area, which usually comprises of a local authority, the local strategic partnership (LSP) and other key partners. The priorities have objectives and targets, and funding to achieve these comes from central government.

MATERIALITY

Materiality sets the threshold for determining whether an item is relevant. This is defined as: an item of information is material to the financial information if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship. Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

MAJOR REPAIRS ALLOWANCE (MRA)

This estimated average annual cost of maintaining the condition of the housing stock based upon each authority's own mix of dwellings. The Major Repairs Reserve records the unspent balance of HRA subsidy in the form of the MRA

MINIMUM REVENUE PROVISION (MRP)

This the minimum amount which must be charged to the authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government and Housing Act 1989.

NET ASSETS

The Net Assets of the authority is the amount that the authority owns (its assets) less the amount that it owes (its liabilities).

NET BOOK ASSETS

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE

The open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

NET WORTH

The Net Worth of the authority shows how the net assets of the authority are allocated between usable resources, resources that have been set aside to finance capital expenditure, unrealised gains from increases in asset values and the reserves which are needed to manage the complexities of local authority accounting.

NON-DISTRIBUTED COSTS

These are overheads from which no user now benefits and these costs should not be apportioned to services.

NON-DOMESTIC RATE (NDR)

A levy on businesses based on national 'rateable value' of the premises occupied. NDR is collected by the Council in line with national criteria, paid into a national pool and then redistributed to all local and police authorities on the basis of population.

NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

POOLED VEHICLES

A pooled vehicle is a single investment whose value and performance is the aggregate of a number of separate investments held within the pooled arrangement. Pooled investments are undertaken to improve the diversification and efficiency of investment activity, particularly where a similar spread of segregated investments would incur higher management costs, and be less economic.

POST BALANCE SHEET EVENT

These are events which arise after the end of the accounting period. They can be divided into

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.
- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS

An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISIONS

Amounts set aside for any liabilities or losses which are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

RESERVES

These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE

This is the estimate, based on current prices, of the increase in market value of the buildings transferred to NewSchools under the PFI contract.

REVALUATION RESERVE

The Revaluation Reserve records increases and reductions in the value of fixed assets when compared to their original book value. Reductions in value can be offset against accumulated revaluation gains before they are charged to the income and expenditure account.

REVENUE EXPENDITURE

Expenditure incurred on day to day running costs and confined to accounts within one financial year.

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

SCHEME LIABILITIES

These are the liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT COSTS

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

SSAP

Statement of standard accounting practice: These rules came before and have largely been replaced by FRSs, which go into much more detail. However, SSAP9 'Stock and long - term contracts', SSAP21 'Accounting for leases and hire purchase contracts' and SSAP19 'Accounting for investment properties' are the most notable SSAPs which have yet to be replaced and so compliance is still required.

STATEMENT OF RECOMMENDED PRACTICE (SORP)

This is the authoritative guidance on the application of accounting standards and incorporates UK GAAP. (See Accounting Codes of Practice).

STOCKS

The amount of unused or unconsumed supplies held in expectation of future use.

SUPPORT SERVICES

These are services that are not statutory local authority services but which give support to those services.

SUPPORTED CAPITAL EXPENDITURE

This is the term for central government support for local authority capital expenditure with effect from 1st April 2004. Under the new system, central government provides allocations to replace the previous system of credit approvals. The allocations enable services to borrow to finance capital schemes. The services will also receive revenue funding through the revenue support grant to pay for the borrowing.

UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate.

USEFUL LIFE

This is the period over which the local authority derives benefit from the use of a fixed asset.

VESTED RIGHTS

In relation to a defined benefit scheme, these are: -

- a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- b) for deferred pensioners, their preserved benefits;
- c) for pensioners, pensions to which they are entitled.